Australian Government
Department of Industry, Innovation and Science

Anti-Dumping Commission

ADC 383

REVIEW OF ANTI-DUMPING MEASURES APPLYING TO POWER TRANSFORMERS

EXPORTED TO AUSTRALIA FROM THE REPUBLIC OF INDONESIA BY

PT CG POWER SYSTEMS INDONESIA

EXPORTER VERIFICATION REPORT

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN WILL BE INVESTIGATED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT THE FINAL POSITION OF THE ANTI-DUMPING COMMISSION

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1 BACKGROUND

On 7 November 2016, the Commissioner of the Anti-Dumping Commission gave public notice of his decision to initiate a review of the anti-dumping measures applying to power transformers exported to Australia from the Republic of Indonesia (Indonesia), Taiwan and the Kingdom of Thailand (Thailand) (except by ABB Thailand) in so far as they relate to PT CG Power Systems Indonesia (CG Power), an exporter of the goods from Indonesia.

Anti-Dumping Notice (ADN) No. 2016/119 provides further information on the review and is available on the Anti-Dumping Commission's (the Commission's) electronic public record at http://www.adcommission.gov.au.

The background relating to the initiation of this review is contained in Consideration Report No. 383.

Following initiation, the Commission provided an exporter questionnaire to CG Power for completion. CG Power provided a complete response to the exporter questionnaire within the required timeframe including all relevant attachments for the review period of 1 July 2013 to 30 June 2016.

A verification team from the Commission visited CG Power in Indonesia in February 2017.

2 THE GOODS AND LIKE GOODS

2.1 The goods exported to Australia

The verification team confirmed that CG Power exported power transformers meeting the goods description to Australia during the review period.

2.2 Like goods sold on the domestic market

The verification team confirmed that CG Power sold power transformers meeting the goods description in the domestic market during the review period.

The verification team considers that the goods manufactured for domestic consumption are identical to, or have characteristics closely resembling, the goods exported to Australia, as they:

- are not distinguished from the exported goods during production;
- are produced at the same facilities and with the same raw material inputs and manufacturing processes; and
- can be considered functionally and commercially alike.

2.3 Model matching

In Investigation 219 – Power Transformers exported from the People's Republic of China, the Republic of Indonesia, the Republic of Korea, Taiwan, Thailand and the Socialist Republic of Vietnam (Investigation 219), it was determined that each power transformer is a unique, tailor made product and as such model matching between domestic and export sales is not appropriate. The verification team has followed the approach detailed in Investigation 219.

The verification team has therefore constructed normal values using the cost to make of the exported transformers and, on the assumption that the goods, instead of being exported, had been sold for home consumption in the ordinary course of trade in Indonesia, the domestic administrative, selling and general costs associated with the sale and the profit on those sales.

2.4 Like goods sold on the domestic market

The verification team considers that power transformers produced by CG Power for domestic sale have characteristics closely resembling those of the goods exported to Australia and are therefore 'like goods', in accordance with subsection 269T(1) of the *Customs Act 1901* (the Act).

3 VERIFICATION OF EXPORT SALES TO AUSTRALIA

3.1 Verification of Australian sales to audited financial statements

The verification team verified the completeness and relevance of CG Power's Australian sales listing by reconciling it to audited financial statements in accordance with ADN. No 2016/30. The verification team identified one issue relating to a transaction that occurred outside of the review period as detailed in section 3.1.1 below. The verification team did not identify any further issues.

Details of this verification process are contained in the verification work programme, and its relevant attachments, at **Confidential Attachment 1**.

3.1.1 Sale outside the review period

During the reconciliation of the export sales listing to the audited statement, the verification team identified one sales transaction that occurred outside of the review period. Therefore, the verification team made an amendment to the sales listing to exclude this transaction.

3.2 Verification of Australian sales to source documents

The verification team verified the accuracy of CG Power's Australian sales listing by reconciling it to source documents in accordance with ADN No. 2016/30. During this process the verification team identified five issues that required adjustment to the Australian sales listing, as detailed below. The verification team did not identify any further issues.

Details of this verification process are contained in the verification work programme, and its relevant attachments, at **Confidential Attachment 1**.

3.2.1 Net invoice value

The verification team noted that the purchase orders provided by CG Power for each sale to Australia included charges for:

- the power transformer and various associated components;
- delivery, unloading and cranage; and
- erection and site testing.

The verification team noted that for each sale barring one transaction, the amounts quoted on the purchase order reconciled to the commercial invoices. For one transaction, however, the commercial invoice did not isolate these three aspects of the contract for purchase, and instead, simply detailed a single total amount for supply and delivery of the power transformer.

The verification team noted that the net invoice value detailed on the Australian sales listing for each sale barring this one transaction reconciled to the value for the power transformer and associated components as recorded on both the purchase order and the commercial invoice. The net invoice value for this one transaction on the Australian sales listing was inclusive of delivery, unloading and cranage and erection and site testing. In keeping with the concordance between purchase order and commercial invoice for the other transactions, the verification team amended the net invoice value on the Australian sales listing for this transaction to reflect the value of the power transformer as detailed on the purchase order, net of delivery, unloading and cranage and erection and site testing costs.

3.2.2 FOB export price

The Australian sales listing calculated an FOB export price based on the value of the power transformer as detailed in the commercial documents provided to the customer, plus inland transport within Indonesia and Indonesian handling costs.

As detailed above, the purchase orders and commercial invoices detailed amounts for delivery, unloading and cranage, and erection and site testing. The verification team noted the amounts charged by CG power to its customer in Australia for delivery, unloading, cranage, and erection and site testing services differed significantly from the verified amounts actually incurred by CG Power for the provision of these services.

To this end, the verification team has amended the FOB export price detailed on the Australian sales listing to reflect the gross invoice price paid by the customer reduced by the verified actual post exportation costs (costs of delivery, unloading and cranage, and erection and site testing) incurred by CG Power.

3.2.3 Australian inland transport

CG Power submitted that the Australian sales listing contained an error in relation to Australian inland transportation and supplied a revised Australian sales listing amending the inland transportation figures. The amended figures for Australian inland transportation did not, however, reconcile to the commercial documents obtained during the verification and as such the verification team has retained the amounts as evidenced within the commercial documents verified.

3.2.4 Exchange rate

CG Power advised that on reviewing the data supplied as part of the exporter questionnaire response, it identified that the exchange rate applied was based on the applicable daily rate for the date of sale rather than the forward rate applicable to the foreign exchange forward deal contracts taken out in relation to each export transaction.

CG power provided an amended Australian sales listing to reflect this change. The verification team obtained copies of each foreign exchange forward deal contract and matched these to the amended Australian sales listing. In reconciling the amended exchange rate in the Australian sales listing to the rate listed on the forward exchange contract, the verification team noted that for one transaction, the exchange rate reported was still the spot rate rather than the forward exchange rate. Therefore, the verification team amended the exchange rate for that transaction to reflect the actual forward rate.

3.2.5 Credit terms

The verification team noted there was a difference between the payment terms disclosed on the commercial documents and the actual time taken for payment. To this end CG Power prepared a summary detailing the average debtor days for both domestic and export customers. The verification team was satisfied that the average debtor days calculated was reasonable and the Australian sales listing was amended to reflect the average debtor days for the period in which the sales to Australia took place.

3.3 The exporter

The verification team considers that for all Australian export sales during the review period, CG Power to be the exporter of the goods.[1]

3.4 The importer

Power transformer sales by CG Power to Australia during the review period were with delivery duty paid (DDP) terms. Sales of power transformers to Australia are facilitated by CG Power's Australian sales office which is registered to operate in Australia as PT CG Power Systems Indonesia. The verification team noted that for exports to Australia the customer:

- negotiates directly with CG Power for the supply of goods and enters into binding legal contracts pursuant to negotiated terms; and
- is named as the consignee on the bill of lading.

However, for the purposes of subsection 269(T)(1) the verification team considers that the beneficial owner of the goods at their time of arrival within the limits of the port in Australia is CG Power's Australian entity, and therefore considers that entity to be the importer of the goods.

3.5 Related party customers

The verification team did not identify any Australian customers that were related to CG Power, based on the relevant response to the Exporter Questionnaire, sales data and audited financial statements.

3.6 Arms length

In respect of all Australian sales of power transformers made by CG Power to customers during the investigation period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was 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

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1 The Commission generally identifies the exporter as a 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 carrier, courier, forwarding company, or its own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, that owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.[2]

The verification team therefore considers that all export sales to Australia made by CG Power during the investigation period were arms length transactions.

3.7 Export price – preliminary assessment

The verification team is satisfied that the amended Australian sales listing is complete, relevant and accurate. The verification team has determined that export prices be established under subsection 269TAB(1)(c), having regard to all the circumstances of the exportation.

The verification team's preliminary export price calculations are at **Confidential Appendix 1**.

[2] Section 269TAA of the Act refers.

4 COST TO MAKE AND SELL

4.1 Verification of costs to audited financial statements

The verification team attempted to verify the completeness and relevance of CG Power's cost to make and sell (CTMS) spreadsheets by reconciling them to the company's audited financial statements in accordance with ADN No. 2016/30. During this process, the verification team identified two issues, as detailed below, that necessitated amendments to the CTMS spreadsheets and required the verification team to make an assessment as to whether the data contained in the amended CTMS spreadsheets could be relied upon for the purposes of any calculations relating to them.

Details of this verification process are contained in the verification work programme, and its relevant attachments, at **Confidential Attachment 1**.

4.1.1 Additional costs to make

The verification team requested that CG Power reconcile the work breakdown structure (WBS) for each Australian sale to the information disclosed in the Australian CTMS spreadsheet. In undertaking this reconciliation it was identified that the Australian CTMS spreadsheet detailed the cost for each project based on the bill of materials, rather than the actual cost as recorded under the WBS. This was also identified to be an issue within the domestic CTMS spreadsheet.

CG Power provided revised Australian and domestic CTMS spreadsheets reflecting the actual cost of each project. The verification team reviewed the methodology behind the recalculation as it related to the updated Australian CTMS spreadsheets and, given the limited number of transformers produced for the Australian market, was satisfied that the updated Australian CTMS spreadsheet represented a complete accounting of CG Power's CTMS in relation to those Australian sales.

In relation to the domestic CTMS spreadsheet, the verification team was not able to conduct an on site verification as it was provided after the conclusion of the on site verification. The verification team did however attempt to reconcile the CTM portion of the amended domestic CTMS spreadsheet provided to CG Power's income statement. The verification team's analysis indicated that, in relation to the key cost component, raw materials, the allocation of raw materials to production for domestic sales was materially disproportionate to the allocation of raw materials to production for export sales in comparison to the value of domestic sales to export sales.

As such, the verification team was not satisfied that CG Power had adequately demonstrated the completeness and relevance of its domestic CTM as detailed in the amended domestic CTMS spreadsheet. The verification team considers that the originally submitted domestic CTMS spreadsheet demonstrated a more reasonable proportionality between the raw materials used for domestic and export production. As such the verification team has used the original domestic CTMS spreadsheet for the purpose of calculating profit (see section 5.7 below).

4.1.2 Cost to sell - Australian sales office costs

The verification team identified that CG Power incurred costs in relation to its Australian sales office, during the period of review. The verification team obtained a complete listing of CG Power's Australian office costs over the review period and isolated those costs relating to sales during the financial year in which the power transformers were delivered. The verification team then apportioned those costs equally to each power transformer delivered to Australia.

The verification team removed the costs associated with CG Power's Australian sales office from CG Power's total of SG&A expenses and recalculated the weighted average amount for domestic SG&A expenses for the purposes of constructing normal values.

The verification team's apportionment of CG Power's Australian sales office costs and the recalculation of domestic SG&A is at **Confidential Attachment 2**.

The verification team has applied these costs as an adjustment to normal value, as detailed in section 6.4 below.

4.2 Verification of costs to source documents

The verification team verified the accuracy of CG Power's revised CTMS spreadsheets by reconciling them to source documents in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of the verification process are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

4.3 Related party purchases

The verification team did not identify any suppliers that might be related to CG Power, based on the company's response to the Exporter Questionnaire and documentation supplied for the purpose of verification.

4.4 Cost to make and sell – summary

While the verification team is satisfied that the amended Australian CTMS spreadsheet provided by CG Power is complete, relevant and accurate, and the amended domestic CTMS spreadsheet is relevant, the verification team is not satisfied that the amended domestic CTMS spreadsheet is complete and accurate.

As detailed in section 7 below, the verification team has relied upon the amended Australian CTMS spreadsheet for constructing the costs of manufacture of the goods exported to Australia.

The verification team has not been able to rely on the amended domestic CTMS spreadsheet for the purposes of determining domestic profitability, and has instead relied upon the best available information available, specifically the domestic CTMS spreadsheet originally submitted by CG Power.

The CTMS spreadsheets relied upon by the verification team are at **Confidential Appendix 2**.

5 VERIFICATION OF DOMESTIC SALES

5.1 Verification of domestic sales to audited financial statements

The verification team verified the completeness and relevance of CG Power's domestic sales listing by reconciling it to CG Power's audited financial statement in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of the verification process are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

5.2 Verification of domestic sales to source documents

The verification team verified the accuracy of CG Power's domestic sales listing by reconciling it to source documents in accordance with ADN No. 2016/30. During this process, there were amendments to the domestic sales listing relating to credit terms.

The verification team identified an issue relating to payment terms as detailed below. The verification team did not identify any further issues.

Details of the verification process are contained in the verification work programme, and relevant attachments, at **Confidential Attachment 1**.

5.2.1 Payment terms

The verification team noted there was a significant difference between the payment terms disclosed on the commercial documents and the actual time taken for payment. To this end CG Power prepared a summary detailing the average number of collection days for both domestic and export customers. The verification team was satisfied that the average debtor days calculated was reasonable and the domestic sales listing was amended to reflect the average debtor days for the period in which the domestic sales took place.

5.3 Related customers

The visit team did not identify any information that might suggest domestic customers were related to CG Power, based on the company's response to the Exporter Questionnaire, sales data and audited financial statements.

5.4 Arms length

In respect of CG Power's domestic sales during the investigation period, the Commission 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, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

The Commission therefore considers that all CG Power's domestic sales during the investigation period were arms length transactions as per section 269TAA.

5.5 Ordinary course of trade

Section 269TAAD provides that if like goods are sold in the country of export in substantial quantities at a price less than the cost of such goods, and are unrecoverable within a reasonable period, then they are taken not to have been sold in the ordinary course of trade (OCOT).

The verification team compared the revenue (i.e. net sales value) for each domestic power transformer sold during the review period against its corresponding domestic CTMS to test whether that sale was profitable.

The recoverability test is detailed at subsection 269TAAD(3). In the case of power transformers, each unit is uniquely constructed and the costs and prices can differ significantly from one unit to another. As such, the verification team, in keeping with the approach outlined in Investigation 219, determined that a "weighted average cost" of goods contemplated in subsection 269TAAD(3) is not meaningful for power transformers. Consequently, the recovery test cannot be conducted and the ordinary course of trade test cannot be fulfilled.

5.6 Suitability of sales

Subsection 269TAC(2)(a) allows for normal values to be constructed when there is an absence of relevant domestic sales.

In Investigation 219, the Commission determined that there was a lack of relevant domestic sales to compare to export sales. The Commission's determination was explained in REP 219 as follows:

> *There are domestic sales of power transformers in the domestic markets of the countries subject to the investigation. However, while electrical steel and copper conductor are the most significant cost components of power transformers, many other variables affect price. For example, depending on whether the power transformer is single or three phase, the design costs, lead times and ancillary options (such as tap changers) can significantly affect price. The Commission considers that because of these many variables it is unable to meaningfully adjust relevant domestic prices of power transformers to make them comparable with export prices. Subsection 269TAC(2)(c) allows for the constructed method when there is an absence of relevant sales or because of the situation in the market the sales are not suitable. The Commission has constructed normal values because of the lack of relevant domestic sales.*

For the purposes of this verification, the verification team has followed the approach detailed in REP 219 and has constructed normal values in accordance with subsection 269TAC(2).

5.7 Profit

For the purposes of constructing normal values under subsection 269TAC(2)(c), the verification team has calculated the profit achieved by CG Power on all domestic sales of power transformers under Regulation 45(3)(a) of the *Customs (International Obligations) Regulation 2015* (the Regulations). For the reasons detailed in section 4 above, the verification team has relied on the domestic CTMS data originally submitted by CG Power for the purposes of calculating profitability.

5.8 Domestic sales – summary

The verification team is satisfied that CG Power's domestic sales listing is complete, relevant and accurate and can be used to determine an appropriate amount of profit in constructing a normal value under subsection 269TAC(2)(c).

The revised domestic sales listing and profit calculation is at **Confidential Appendix 3.**

6 ADJUSTMENTS

To ensure the normal value is comparable to the export price of goods exported to Australia, the verification team has considered the following adjustments in accordance with subsection 269TAC(9).

6.1 Export packing

The verification team considers that an upward adjustment for export packing expenses is required, to ensure a fair comparison to the export price. The verification team has applied this adjustment based on the actual packing costs incurred on each export sale.

6.2 Export warranty

The verification team considers that an upward adjustment for export warranty expenses is required, to ensure a fair comparison to the export price. The verification team has applied this adjustment based on the actual warranty costs incurred on each export sale.

6.3 Australian sales office costs

The verification team considers that an upward adjustment is required for the CG Power's Australian sales office costs to ensure a fair comparison to the export price. The verification team has applied this adjustment based on the apportionment method detailed in section 4.1.2 above.

6.4 Credit terms

The verification team considers that a downward adjustment for domestic credit and an upward adjustment for export credit is necessary to ensure a fair comparison to the export price. The verification team has applied this adjustment based on the average number of debtor days calculated for both domestic and export customers for the financial year in which the sales to Australia took place. The verification team has used CG Power's verified short term borrowing rate for the review period.

6.5 Adjustments – conclusion

The verification team is satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with subsection 269TAC(9) of the Act, and considers these adjustments are necessary to ensure a fair comparison of normal values and export prices:

Adjustment Type	Deduction/addition
Export packing	**Add** the cost of export packing
Export warranty	**Add** the cost of export warranty
Export sales office	**Add** the cost of the CG Power's Australian sales office
Domestic credit	**Deduct** the cost of domestic credit.
Export credit	**Add** the cost of export credit

The verification team's preliminary adjustment calculations are included in normal value calculations at **Confidential Appendix 4**.

7 NORMAL VALUE

Subsection 269TAC(2)(c) allows for normal values to be constructed when there is an absence of relevant domestic sales. In Investigation 219, the Commission constructed normal values following a determination that there was a lack of relevant domestic sales.

For the purposes of this verification, the verification team has followed the approach detailed in REP 219.

As such, the Commission has calculated normal values under subsection 269TAC(2)(c) using production costs of exported transformers and, on the assumption that the goods, instead of being exported, had been sold for home consumption in the ordinary course of trade in Indonesia, the domestic administrative, selling and general costs associated with the sale and the profit on those sales.

For the purpose of constructing the normal value of the goods under subsection 269TAC(2)(c), the verification team considers that the production costs of transformers exported to Australia can be worked out under Regulation 43(2), using the costs of production as set out in CG Power's records, specifically as detailed in CG Power's amended Australian CTMS spreadsheet.

The verification team also considers that an amount for SG&A costs should be worked out under Regulation 44(2), using the SG&A costs associated with the sale of like goods as set out in CG Power's records. The Commission has used the weighted average SG&A cost per power transformer incurred by CG Power, calculated using CG Power's verified SG&A records, on domestic sales of power transformers during the review period.

Further, the verification team considers that an amount for profit should be worked out under Regulation 45(3)(a), using the actual amounts realised by the exporter or producer from the sale of the same general category of goods in the domestic market of the country of export. This approach is consistent with that adopted in Investigation 219.

The verification team considers that certain adjustments, in accordance with subsection 269TAC(9), are necessary to ensure fair comparison of normal values with export prices, as outlined in Chapter 6 of this report.

The verification team's preliminary normal value calculations are at **Confidential Appendix 4**.

8 DUMPING MARGIN

The dumping margin was determined under s. 269TACB(2)(b) using the *transaction to transaction* method by comparing the export prices determined in respect of individual transactions with the corresponding normal values determined over the review period.

The verification team has calculated a dumping margin in respect of power transformers exported to Australia by CG Power for the review period of **46.0 per cent**.

The preliminary dumping margin calculation is at **Confidential Appendix 5**.

9 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Australian export sales
Confidential Appendix 2	CTMS spreadsheets
Confidential Appendix 3	Domestic sales and profitability
Confidential Appendix 4	Normal value
Confidential Appendix 5	Dumping margin
Confidential Attachment 1	Verification work programme, with attachments
Confidential Attachment 2	CG Power Australian sales office cost and domestic SG&A cost calculations