PUBLIC RECORD

Australian Government
Department of Industry, Innovation and Science

Anti-Dumping Commission

INVESTIGATION 377

ALLEGED DUMPING OF COOLING TOWER WATER TREATMENT CONTROLLERS

EXPORTED FROM THE USA

VISIT REPORT - AUSTRALIAN INDUSTRY

AQUARIUS TECHNOLOGIES PTY LTD

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 ANTI-DUMPING COMMISSION

February 2017

CONTENTS

ABBREVIATIONS

The Act	*Customs Act 1901*
ADN	Anti-Dumping Notice
The applicant	Aquarius Technologies Pty Ltd
Aquarius	Aquarius Technologies Pty Ltd
the Commission	Anti-Dumping Commission
CTMS	Cost to make & sell
FOB	Free On Board
NIP	Non-injurious Price
ORP	Oxidization Reduction Potential
PAD	Preliminary Affirmative Determination
PCB	Printed circuit board
pH	Power of Hydrogen
SEF	Statement of Essential Facts
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
the Parliamentary Secretary	Assistant Minister for Industry, Innovation and Science and the Parliamentary Secretary to the Minister for Industry, Innovation and Science
TDS	Total Dissolved Solids
USP	Unsuppressed Selling Price

1 BACKGROUND AND PURPOSE

1.1 Background

On 23 January 2017, the Commissioner of the Anti-Dumping Commission (the Commissioner) initiated a dumping investigation into alleged dumping of cooling tower water treatment controllers (the goods) exported to Australia from the United States of America (USA).

The application was lodged by Aquarius Technologies Pty Ltd (Aquarius) requesting that the Assistant Minister for Industry, Innovation and Science and Parliamentary Secretary to the Minister for Industry Innovation and Science (Parliamentary Secretary) publish a dumping duty notice in respect the goods exported from the USA.

In its application, Aquarius alleges that the Australian industry has suffered material injury caused by cooling tower water treatment controllers exported to Australia from the USA.

The background to the initiation of this investigation is contained in Consideration Report number 377 (CON 377). Public notification of the initiation of the investigation was made on 23 January 2017 in the Anti-Dumping Notice No. (ADN) 2017/05.

The public record version of the application, CON 377 and ADN 2017/05 are available on the Commission's website www.adcommission.gov.au.

1.2 Purpose of visit

The purpose of the visit was to:

- obtain general information about the Australian market for cooling tower water treatment controllers;
- gain a greater understanding of the company's manufacturing, marketing and distribution processes;
- verify information provided in the application;
- obtain additional financial data about the alleged injury to the Australian industry; and
- gather information relevant to assessing whether the allegedly dumped imports have caused material injury to the Australian industry.

1.3 Meeting details

Dates of visit	8 to 10 February 2017

The following were present at various stages of the meetings.

Aquarius	Sergio Koulakov – General Manager XXXXXXXXXXXXXXXXXXXXXX
International Trade Remedies Advisory Service	XXXXXXXXXXXXXXXXXXX
The Commission	Catherine Gladman – Director – Operations 5 Gilon Smith – Director – Injury Causation Investigations & Market Analysis Mick Kenna – Assistant Director – Operations 5

1.4 Investigation process and timeframes

We advised the company of the investigation process and timeframes as follows.

- The investigation period is 1 July 2015 to 30 June 2016.
- The injury analysis period is from 1 July 2009 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (24 March 2017) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

  The Commission will not make a PAD until (and if) it becomes satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice.

  The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 15 May 2017, or such later date as the Assistant Minister for Industry, Innovation and Science and the Parliamentary Secretary to the Minister for Industry, Innovation and Science (the Parliamentary Secretary)[1] allows under section 269ZHI of the *Customs Act 1901* (the Act).

[1] On 19 July 2016, the Prime Minister appointed the Parliamentary Secretary to the Minister for Industry, Innovation and Science as the Assistant Minister for Industry, Innovation and Science. For the purposes of this investigation the Minister is the Parliamentary Secretary to the Minister for Industry, Innovation and Science.

The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Parliamentary Secretary, and will invite interested parties to respond, within 20 days, to the issues raised therein.

- Following receipt and consideration of submissions made in response to the SEF, the Commission will provide its final report and recommendations to the Parliamentary Secretary.

  This final report is due no later than 27 June 2017, unless an extension to the SEF is approved by the Parliamentary Secretary.

1.5 Visit report

We explained to the company that we would prepare a report of our visit (this report) and provide it to the company to review its factual accuracy, and to identify those parts of the report it considers to be confidential.

We explained that, in consultation with the company, we would prepare a non-confidential version of the report, and place this on the investigation's Public Record.

2 THE GOODS

2.1 Description

The goods the subject of the application (the goods) are:

> *Industrial water treatment controllers, programmed to monitor and/or treat water in a cooling tower, with or without accessories including sensors, pumps, solenoids and modem (cooling tower water treatment controllers).*

Further information on the goods:

A cooling tower is a heat rejection device that rejects waste heat to the atmosphere through the cooling of a water stream. Common applications of cooling towers include air conditioning for buildings and the cooling of circulating water in industrial processes.

Cooling tower water treatment controllers are units programmed to monitor water conditions (such as conductivity, Oxidation Reduction Potential (ORP) and power of hydrogen (pH) levels) in the cooling tower water and/or initiate actions required to bring the water to within the user's desired parameters (for example, through the addition of disinfecting chemicals). A controller typically comprises a printed circuit board or boards (PCBs), connection terminals, a display screen and control panel with keypad.

The control functions of cooling tower water treatment controllers are based on inputs from probes measuring the properties of the water.

Depending on the reading from the probes, the unit signals ancillary devices such as a bleed solenoid, a feeder and/or pump/s (which are connected to the water treatment system separately as an additional system component) to drain a controlled amount of water or dose the water with the required amount of chemical(s) (for example, oxidising biocide, acid).

In addition, the goods are often equipped with internal timers which are programmed by users to send signals to ancillary devices to dose water with other chemicals when required (for example, inhibitor secondary biocide (non-oxidising), dispersant).

2.2 Tariff classification

The goods are generally, but not exclusively, classified to tariff classification 9032.89.80 (statistical code 90) in Schedule 3 to the *Customs Tariff Act 1995.*

3 THE AUSTRALIAN INDUSTRY

3.1 Corporate, organisational and ownership structure

Aquarius is a private company. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXX. [Confidential: ownership of the company]

Aquarius commenced operations in 1981, focussing on manufacturing controllers for cooling towers. In 2005, the company diversified into other types of controllers, although the majority of its revenue continued to be derived from the cooling tower market.

In 2010, the ownership of Aquarius changed, which led to a change in management and a greater emphasis on research and development. Aquarius stated that this commitment to innovation had led to the release of its ‘Ultima’ brand controllers in 2015. At present, the company’s revenue is derived approximately XXX from controller parts and consumables and XXX from controller ‘packages’ (controllers and associated items such as pumps, sensors, manifolds and backboards).

3.2 Accounting structure and details of accounting systems

Aquarius’ accounting period is 1 July to 30 June. It uses the XXXXX accounting software and maintains detailed bills of material for each product it produces and sells. Aquarius is classified as a small proprietary company and as such is not required to prepare audited accounts. As part of its application for anti-dumping measures, the company provided financial reports, including Director’s Declarations, for the financial years 2010/11 to 2014/15 inclusive, and an income statement and balance sheet for the 2015/16 financial year.

3.3 Relationship with suppliers and customers

Aquarius advised that it has no relationship or association with its component suppliers or with its Australian or overseas customers.

3.4 Manufacturing facilities and product range

3.4.1 Manufacturing facilities

Aquarius specialises in developing and manufacturing water treatment controllers for water treatment industries, including cooling towers, wastewater treatment, swimming pool disinfection and potable water treatment.

The company produces controllers and accessories at its Coopers Plains premises in Brisbane. The production process involves little in the way of machinery or capital equipment.

3.4.2 Range

Aquarius explained that, in respect to cooling towers, water treatment was designed to control three main variables:

1. Conductivity – this is a measure of the amount of solids present in the cooling tower water, which occur due to evaporation. The solids (referred to as Total Dissolved Solids or TDS), if not controlled, can cause scale and corrosion problems. TDS levels are monitored and controlled by a solenoid (or electrical valve) opening a valve to drain an amount of water from the system. A floating valve opens to replace the lost water. The temperature of the water must also be monitored to obtain an accurate conductivity measure.

2. Disinfection – chemicals are added to the cooling tower water to prevent unacceptable levels of bacteria. Typically, two types of chemical or 'biocide' are used alternatively to avoid the organisms in the water building up a resistance to the chemicals. This can be done using one of two measures:

    - using timers to engage pumps to add biocides in desired intervals;

    - using sensors to measure the cleanliness of the water through its Oxidation-Reduction Potential (ORP) and dose the water with the required amounts of chemicals according to the ORP reading.

    Using chlorine as a disinfecting chemical increases the power of Hydrogen (pH) of the water. In ORP measuring systems, the pH levels are normally measured although not always controlled.

3. Corrosion – excessive corrosion in a cooling tower system can lead to damage to expensive equipment such as the condenser or heat exchanger. The level of corrosion may not be monitored by all models of controllers but inhibitors are pumped into the water using timers. Advanced controllers may monitor the corrosion rates as well.

The above requirements determine that there are two basic types of cooling tower water treatment controller, according to the approach used to disinfection (all controllers treat conductivity and corrosion in the same way). Aquarius offers the following types of controller:

CT1 series	this controller uses timers to control the addition of chemicals to the water for disinfection. It does not measure ORP or pH.
CO1 series	this controller measures the ORP and pH of the water and adds chemicals based on the reading.
Ultima	this is Aquarius' new generation of controller that monitors all cooling tower functions including ORP and pH.

Customers can purchase the controller by itself but more often purchase the controller with various accessories including:

- PVC mounting backboard;
- PVC manifold;
- solenoid;

- sensors;
- pumps;
- internet modem.

Aquarius' product code indicates the type of controller and elements of the 'package' sold. For example, CO11330 denotes as follows

CO10000	CO1 controller + manifold and solenoid on a PVC backboard
1	one 1 litre per hour pump for inhibitor
3	one 3 litre per hour pump for biocide A
3	one 3 litre per hour pump for biocide B
0	no 4th pump.

If sold in a package, the product would include a mounting backboard, manifold, solenoid and sensor/s.

In 2015/16, Aquarius introduced a new range of cooling tower water treatment controllers under the 'Ultima' brand. The company explained that the Ultima controllers had been well received as their touch screen display made them easy to use, accessible areas of the controller are low voltage, allowing the easy and safe replacement of sensors and pumps can be plugged straight into the controller.

Aquarius claimed that the life expectancy of a controller was between five and ten years. The company provides a two year warranty on its controllers.

3.5 Production process

During the verification visit, we conducted an inspection of the production facilities at Coopers Plains in Brisbane. **Confidential Attachments 1 and 2** describe the production processes undertaken by Aquarius for its Ultima and CT/CO brands of controller, respectively.

Aquarius explained that it had designed components for its range of controllers, such as the PCBs, boxes and lids. It then sources these products from overseas and local suppliers for use in the manufacture of its controllers. Aquarius has developed the software it loads onto the controllers as one of the last steps before they are ready for sale.

Prior to the visit, we advised Aquarius that we would need to consider whether its cooling tower water treatment controllers were produced in Australia. Subsection 269T(2) of the *Customs Act 1901* (the Act) states:

> For the purposes of this Part, goods, other than unmanufactured raw products, are not to be taken to have been produced in Australia unless the goods were wholly or partly manufactured in Australia.

Subsection 269T(3) of the Act defines partly manufactured as follows:

> For the purposes of subsection (2), goods shall not be taken to have been partly manufactured in Australia unless at least one substantial process in the manufacture of the goods was carried out in Australia.

In relation to one substantial process in the manufacture of the goods being carried out in Australia, the Dumping and Subsidy Manual states the following:

> "Section 269T(3) gives further guidance on what constitutes "partly manufactured". For goods to be regarded as partly manufactured in Australia, at least one substantial process in the manufacture of the goods must be carried out in Australia. The concept of "substantial process" is not defined in the legislation but before it can be assessed, the process or processes undertaken in Australia must be identified.
>
> To be substantial, that process must add some essential or vital quality or character to the finished product of like goods. The conversion of intermediate goods into final goods by virtue of a simple process such as dividing, sorting, simple assembly, packaging or labelling may not be regarded as substantial."

Prior to the visit, we also advised Aquarius that we would not consider purchased components to have undergone a substantial process of manufacture in Australia unless Aquarius obtained evidence of this from the relevant supplier. During the visit, Aquarius provided a brief letter from its PCB supplier stating that, although materials and components may be sourced offshore, the manufacturing of orders placed with it by Aquarius are manufactured completely in its XXXXX assembly plant. We consider that further verification of this claim would be required and, at this stage, we have not taken this into account in considering whether Aquarius' controllers are produced in Australia as defined in the legislation.

Having examined the available evidence, we consider that Aquarius carried out, in Australia, at least one substantial process in the manufacture of the goods. In coming to this conclusion, we have considered:

- Aquarius' role in the design of the controller components;
- the process undertaken by Aquarius (as described in **Confidential Attachments 1 and 2**) to assemble the components sourced from various suppliers, and in particular:
    - the time taken to construct a controller ready for sale; and
    - the skills and experience required to assemble the controllers.

We consider the process undertaken by Aquarius is more than simple assembly, packaging or labelling.

We conclude that the goods can be taken to have been wholly or partly manufactured in Australia and that they are, therefore, produced in Australia.

3.6 Like goods

Subsection 269T(1) of the Act defines like goods as:

> *goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration.*

Aquarius considers that its range of cooling tower water treatment controllers are like goods to cooling tower water treatment controllers exported to Australia from the USA. Aquarius claims that its controllers and the imported controllers:

- are alike physically;
- compete directly in the same market;
- are substitutable; and
- have the same end-uses.

Based on discussions and verification with Aquarius, at this stage, the Commission considers that:

- the primary physical characteristics of the goods and locally produced goods are similar;
- the goods and locally produced goods are commercially alike as they are sold to common users, and directly compete in the same market;
- the goods and locally produced goods are functionally alike as they have the same end-use; and
- from information available it appears that the goods and locally produced goods are likely to be manufactured in a similar manner.

Accordingly, the Commission is satisfied that the Australian industry produces like goods to the goods the subject of the application, as defined in section 269T of the Act.

3.7 Employment numbers

Aquarius currently has XX employees, XXXX of which are dedicated to production.

3.8 Annual turnover

In 2015/16, the company had a turnover of XXXXXXXXXXX, of which XXXXX was represented by controllers (including controller accessories sold in conjunction with controllers).

3.9 Capacity

Aquarius claims that it currently has the capacity to produce XXX cooling tower water treatment controllers per annum. The main dictator of capacity is labour employed in the assembly of the units.

3.10 Conclusion

We are satisfied that:

- the cooling tower water treatment controllers produced by Aquarius are like to the imported goods[2];
- at least one substantial process of manufacture of cooling tower water treatment controllers is carried out in Australia[3];
- the like goods were, therefore, wholly or partly manufactured in Australia by Aquarius[4];
- there is an Australian industry consisting of persons who produce like goods in Australia, including Aquarius[5] (the Commission is investigating whether any other Australian industry members exist).

[2] Section 269T(1)
[3] Section 269T(3)
[4] Section 269T(2)
[5] Section 269T(4)

4 AUSTRALIAN MARKET

4.1 Background

A cooling tower is a heat rejection device that rejects waste heat to the atmosphere through the cooling of a water stream. Common applications of cooling towers include air conditioning for buildings and the cooling of circulating water in industrial processes. The health of water in a cooling tower is important to avoid damage to equipment from corrosion and to ensure the cooling towers do not become a health risk. Cooling tower operators are generally required to register an operating cooling tower with health authorities. The tower is then subject to regulation and inspection. Certain jurisdictions such as Victoria have stricter regulations relating to the maintenance of the towers.

Aquarius explained that there are about 20 water treatment service companies in Australian that provide services to maintain and service cooling towers. The companies supply cooling tower water treatment hardware, including controllers, and chemicals required to treat the water. Aquarius advised that more than 95 percent of its sales were to these water treatment service companies, with the remainder of sales being to end-users.

In its application, Aquarius explained that the Australian market for cooling tower water treatment controllers is supplied by the following entities:

- Aquarius (applicant and Australian manufacturer);
- Waterdos Instruments Australasia (importer of controllers from the USA);
- Iwaki Australia (importer of controllers from the USA);
- Ecolab Pty Ltd (importer of controllers from the USA);
- Convergent Water Controls (importer of controllers from another source).

Having a controller installed on a water tower typically leads to a stream of sales of replacement parts and accessories such as sensors that need to be replaced at regular intervals.

Aquarius advised that one importer of controllers from the USA, Ecolab Pty Ltd, typically rents rather than sells cooling tower water treatment controllers to its customers.

4.2 Marketing and distribution

4.2.1 General

As noted above, the vast majority of Aquarius' sales of cooling tower water treatment controllers are to water treatment service companies. These companies provide water treatment services for commercial cooling tower and industrial cooling tower customers. Contracts to service new cooling towers are often decided by tender. The water treatment service companies bid to supply a range of water treatment products and services, including controllers. The companies typically purchase a controller and associated accessories for ease of installation at the cooling tower site.

4.2.2 Distribution arrangements

Aquarius produces controllers based on customer orders and packages them with the accessories ordered for shipment to the customer. The goods are all despatched from Aquarius' premises in Brisbane.

4.3 Imports by applicant

The applicant does not import cooling tower water treatment controllers.

4.4 Demand

Aquarius advised that the main driver of demand is replacing non-compliant or outdated controllers. The other driver is activity in the building and construction sector. Government infrastructure spending on public buildings such as hospitals also impacts on demand.

4.5 Market size

Aquarius estimates that, in 2015/16, the Australian cooling tower water treatment market was approximately XXXX units. Due to the broad tariff classifications applying to the importation of cooling tower water treatment controllers, the Anti-Dumping Commission has been unable to reliably identify imports of cooling tower water treatment controllers in Australian Border Force data. As part of the investigation, the Commission will seek to confirm the size of the market and changes in the size of the market over the injury analysis period.

5 SALES

5.1 General

In its application, Aquarius provided a detailed, line-by-line-sales listing of its Australian sales of cooling tower water treatment controllers for the investigation period (2015/16).

The listing shows that Aquarius sold XXXX cooling tower water treatment controllers in 2015/16, made up as follows:

Controller category	Different 'models'	Units sold
CT1 Series (conductivity only)	6	XXXX
CO1 Series (conductivity, ORP and pH)	11	XXXX
Ultima (conductivity, ORP and pH)	17	XXXX
Total	34	XXXX

Aquarius stated that approximately XXX percent of its sales of cooling tower water treatment controllers were for the replacement of old controllers and about XXX percent for incorporation into new cooling tower projects.

Aquarius provided details of the small but increasing volume of export sales it has made over the injury examination period.

Ordering, invoicing and delivery arrangements

Customers place orders with Aquarius, normally for a controller 'package' rather than just the controller. Aquarius sometimes first provides a quote to the customer and some negotiation on price may take place. The customer is invoiced at the time the goods are despatched.

The goods are delivered to the customer by courier. For local and interstate deliveries, Aquarius includes a small delivery fee, which is shown separately on the invoice.

5.2 Pricing

5.2.1 Pricing system

Aquarius bases its pricing on a price list that is reviewed about every XX months.

5.2.2 Discounts and rebates

Customers are given a discount on the list price according to their purchasing volume history. The discount is shown on the invoice. Aquarius does not provide rebates.

5.3 Level of trade and related vs unrelated customers

The vast majority of Aquarius' sales of cooling tower water treatment controllers are to water treatment service companies. Aquarius is not related to any of its customers.

5.4 Verification of sales

5.4.1 Verification of Australian sales to financial statements

We verified the completeness and relevance of Aquarius' sales spreadsheet by reconciling it to the company's financial statements.

Details of the verification are contained within the verification work program as **Confidential Attachment 3.**

We did not find any significant variances or issues.

5.4.2 Verification of sales data to source documents

We verified the accuracy of Aquarius' sales spreadsheet by reconciling it to source documents. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 3**.

We did not find any significant variances or issues.

5.4.3 Verification of sales data - conclusion

Having regard to all of the above, we consider the Appendix A4 Sales data provided by Aquarius is an accurate, relevant and complete account of its sales of cooling tower water treatment controllers during the period from 1 July 2015 to 30 June 2016.

6 COST TO MAKE AND SELL

6.1 Verification of cost to make and sell data to financial statements

We verified the completeness and relevance of Aquarius' cost to make and sell (CTMS) spreadsheet by reconciling it to the company's financial statements.

Details of the verification are contained within the verification work program at **Confidential Attachment 3**.

We did not find any discrepancies or issues reconciling the CTMS spreadsheet to audited financial statements.

6.2 Verification of production costs to source documents

We verified the accuracy of Aquarius' CTMS spreadsheet by reconciling it to source documents.

Details of the verification are contained within the verification work program at **Confidential Attachment 3**.

In the course of the verification, Aquarius explained that its labour costs included only costs involved in the final stages of assembly of the controllers, and not time taken to manufacture intermediate components such as the power cord and conductivity sensors.

Aquarius recalculated the labour costs it incurs in manufacturing the entire controller and provided schedules showing the estimated total labour time taken for each model sold. The schedule also shows hourly production labour costs for each year of the injury examination period.

We did not find any other discrepancies or issues reconciling data in the CTMS spreadsheet to source documents.

6.3 Verification of selling, general and administration costs to source documents

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
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XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXX. [confidential: Aquarius calculation methodology]

Aquarius recalculated selling, general and administrative costs, allocating the expenses to the different categories of controllers according to sales revenue. We agreed with Aquarius that this seemed a reasonable method of allocating an appropriate amount of these costs to cooling tower water treatment controllers. Aquarius provided revised sales and cost to make and sell spreadsheets incorporating the revised allocations.

Details of the verification are contained within the verification work program at **Confidential Attachment 3**.

We did not find any other discrepancies or issues in examining the calculation of selling, general and administrative costs.

6.4 CTMS – conclusion

We consider that Aquarius' CTMS data in Appendix A6 (revised as discussed above) is a reasonably complete, relevant and accurate reflection of the actual costs to manufacture and sell cooling tower water treatment controllers during the period from 1 July 2009 to 30 June 2016.

Accordingly, we consider Aquarius CTMS data in the revised Appendix A6 are suitable for analysing the economic performance of its cooling tower water treatment controllers over the injury analysis period.

7 ECONOMIC CONDITION

7.1 Applicant's injury claims

Aquarius claimed that it has experienced substantial losses of sales volumes and market share since the allegedly dumped controllers entered the Australian market in significant volumes in 2010/11. Aquarius attributes this injury to sales lost to cooling tower water treatment controllers imported from the USA at substantial dumping margins.

Aquarius claimed that it has reduced prices in an effort to compete with the allegedly dumped controllers and to regain and maintain its market share.

In summary, Aquarius has claimed that the Australian industry has been injured through:

- loss of sales volume;
- reduced market share;
- price depression;
- price suppression;
- profits foregone;
- reduced assets;
- reduced capital investment;
- reduced revenue;
- reduced capacity;
- reduced capacity utilisation;
- reduced employment; and
- reduced cash flow.

7.2 Commencement of injury, and analysis period

Aquarius claimed that injury commenced in 2010/11, when it stated that low priced imports from the USA entered the Australian market in substantial volumes. The Commission will examine data from 2009/10 to analyse injury to the Australian industry.

7.3 Volume trends

7.3.1 Sales volume

Aquarius claims that it has experienced injury in the form of reduced sales volumes. Figure 1 below shows Aquarius' domestic sales volumes of cooling tower water treatment controllers in the period 1 July 2009 to 30 June 2016.

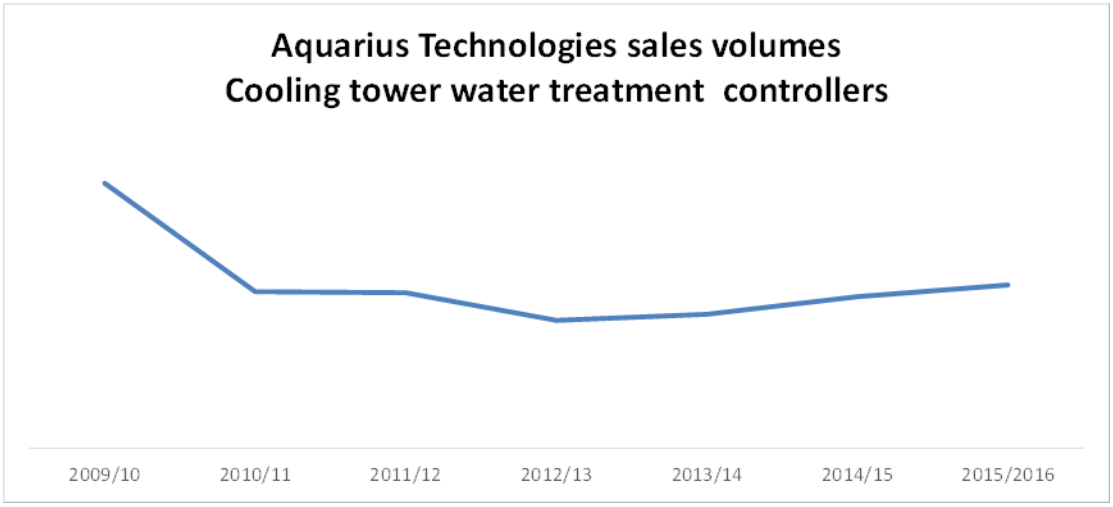

Figure 1 shows that Aquarius' domestic sales fell significantly in the period 2009/10 to 2012/13. Sales volumes marginally increased from 2013/14 to 2015/16.

We noted that Aquarius lost a large volume of sales (41%) in 2010/11, compared to 2009/10 – falling from XXX units in 2009/10 to XXX units in 2010/11. To gain a greater understanding of the sales lost, we asked Aquarius to prepare a schedule of major customers that had reduced their purchases from 2009/10 to 2010/11 (**confidential attachment 4**).

7.3.2 Market share

Aquarius estimates that the Australian market for cooling tower water treatment controllers declined in each year 2010/11 and 2012/13, reflecting a decline in building activity and a reluctance to replace controllers as a result of the Global Financial Crisis (GFC). Aquarius has factored these estimated declines into total Australian market into estimating its share of the Australian market since 2009/10.

Aquarius estimates that its share of the Australian market (by volume) fell from XXX percent in 2009/10 to XXX percent in 2012/13. It estimates that its share of the market had risen to XXX percent in 2015/16. Aquarius believes that its market share and the market share of imports from a county other than the USA have both suffered due to the market share taken by allegedly dumped imports from the USA.

Due to the broad scope of goods that fall within the tariff classifications relevant to cooling tower water treatment controllers, the Commission has been unable to reliably identify import volumes of the subject goods in Australian Border Force import data. The Commission will undertake an analysis of movements in market share after collecting information from the importers of cooling tower water treatment controllers.

7.3.3 Conclusion – volume effects

Based on the available information, we consider that there appear to be reasonable grounds to support Aquarius' claim that the Australian industry has experienced injury in the form of lost sales volume, notwithstanding its improved performance in the investigation period.

7.4 Price suppression and depression

Price depression occurs when a company, for some reason, lowers its prices. Price suppression occurs when price increases, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between prices and costs.

Aquarius claims that it reduced prices in an effort to recover some of the market share lost to imports from the USA. In its application Aquarius Technologies provided CTMS data and sales revenue data from 2009/10 to 2015/16.

The Commission notes that there are several major limitations of the price analysis using the sales and CTMS data. Within each of the five models of controller sold by Aquarius, there are a large number of add on 'options' which have the effect of many models of controller, with significant price variance.

The CTMS and sales data provided by Aquarius in its application does not differentiate on these notional models, made up from the many optional extras. As such, the aggregate price and CTMS information provided is of limited use in assessing price suppression and depression.

Prior to the visit, the Commission asked Aquarius to prepare CTMS and selling price information over the injury analysis period for two of its more popular controller models. This information was requested to provide an insight into the company's cost and pricing trends by removing any distortions that could be caused by the mix of products. The two models represent approximately XXX percent of Aquarius' cooling tower water treatment controllers in each year of the injury analysis period, except for 2015/16 when the Ultima controller was introduced.

Figures 2 and 3 below show the movements in average CTMS and selling prices for the two selected models.

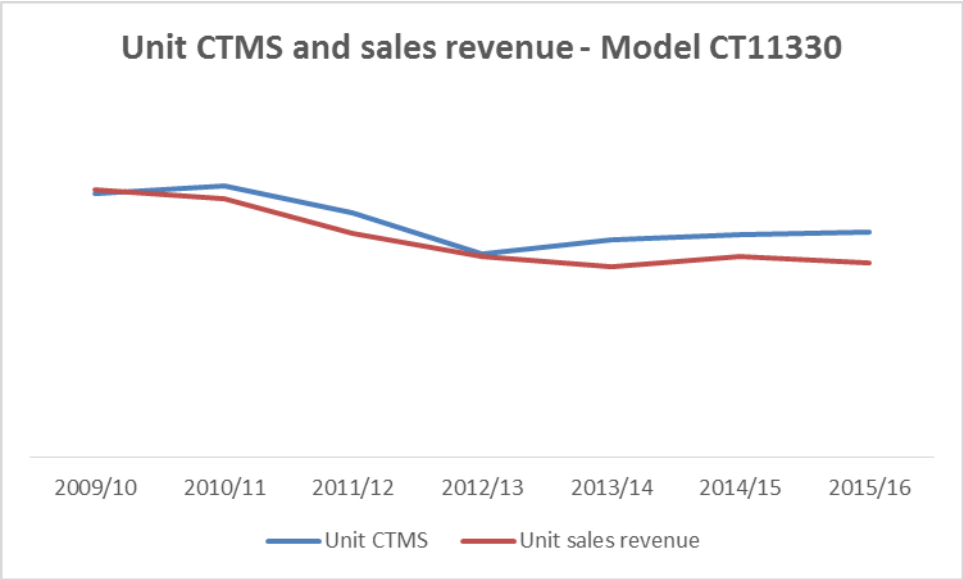

Figure 2: Unit CTMS and sales revenue – Model CT11330

Figure 2 shows that Aquarius' average selling price of the CT11330 controller fell in each year since 2009/10, other than in 2014/15 when a small increase occurred. Unit CTMS declined until 2012/13 and has risen in each year since.

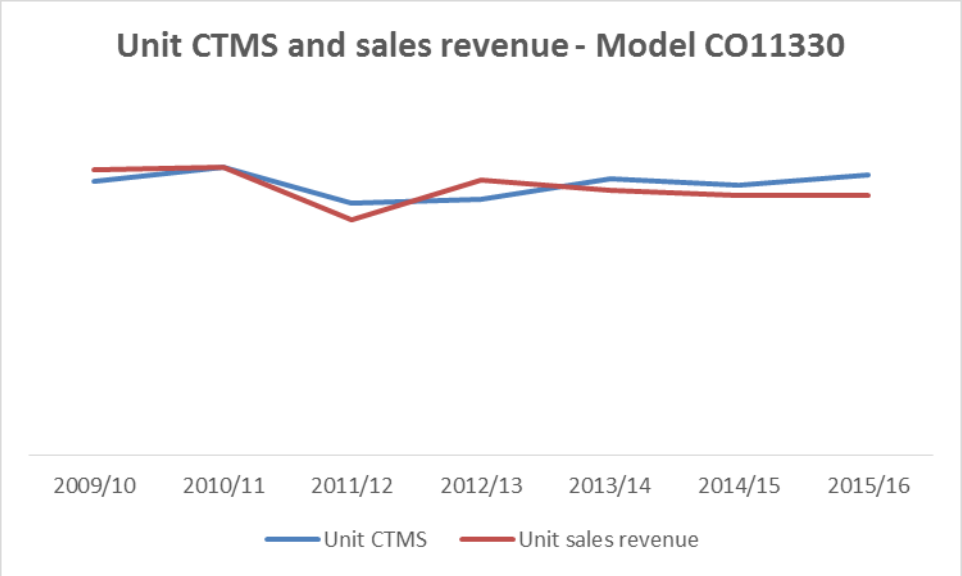

Figure 3: Unit CTMS and sales revenue – Model CO11330

Figure 3 shows that average unit sales revenue for model CO11330 declined significantly in 2011/12 before rising in 2012/13. Unit sales revenue then decreased marginally each year. Unit CTMS for the model also declined significantly in 2011/12 but has risen each year since, with the exception of a small decline in 2014/15.

To further support its claims of price depression, Aquarius provided a series of invoices to a number of customers, showing the decline in prices for the same model to each of the customers over the injury analysis period (**confidential attachment 5**).

We also considered the performance of the cooling tower controller industry alongside a comparable industry. The applicant suggested that the industry for swimming pool controllers (which it also manufactures) would be a suitable industry for comparison. Aquarius claims that the swimming pool controller and cooling tower water treatment controller industries are similar, but the swimming pool controller industry does not compete with dumped imports.

We considered Aquarius' controller price lists effective from July 2009 to its current price list - effective March 2016. The price lists show that the listed price of its basic controller fell in 2012 while the list price of its more advanced controller fell in 2015. Two new controller models were effectively introduced in 2015/16 and therefore have no year-on-year sales history.

In contrast, the list price of a swimming pool controller increased in 2013 and has remained at that price. The applicant claims that but for the allegedly dumped imports, it would have been able to achieve price increases for its cooling tower water treatment controllers, commensurate with those achieved in its swimming pool controller market.

7.4.1 Conclusion – price effects

Based on the available information, we consider that Aquarius has experienced injury in the form of price depression and suppression.

7.5 Profits and profitability

Figure 4 below shows Aquarius' total profit and profitability over the injury analysis period.

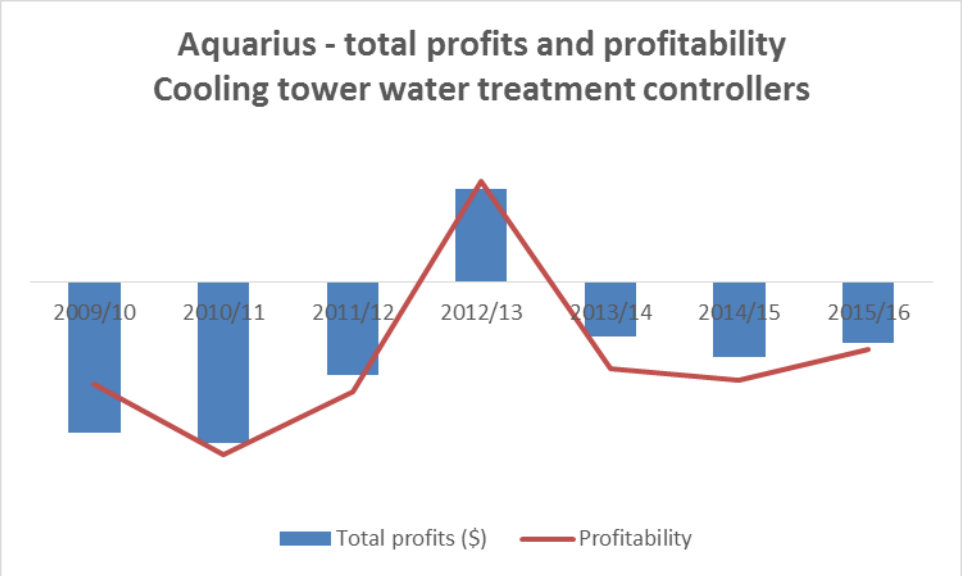

Figure 4: Aquarius total profits and profitability

Aquarius' total profits and profitability deteriorated in 2010/11 compared to 2009/10. The company's position improved in 2011/12 as a result of efforts to reduce costs, principally by reducing staffing levels and finding an alternative source of XXXX supply. Aquarius' result in 2012/13 was impacted by the company selling a significant quantity of product (unrelated to controllers) obtained from a sister company that had ceased trading. The temporary increase in revenue from these sales meant that overheads were spread over a larger quantity of products, reducing the allocation to cooling tower water treatment controllers. No other year was impacted by this factor.

Aquarius' profits and profitability deteriorated in 2013/14 and 2014/15, before improving in 2015/16 with the introduction of two new controller models.

7.5.1 Conclusion – profit and profitability effects

Aquarius' profit and profitability related to sales of cooling tower water treatment controllers deteriorated in 2010/11 compared to 2009/10. Aquarius claims that this was the result of losing significant volumes of sales to low priced imports of cooling tower water treatment controllers from the USA. Aquarius claims to have reduced prices to stem any further loss of sales. At the same time, it undertook a concerted cost reduction program in an attempt to increase, or preserve profits and profitability.

Despite unit CTMS reductions, the company has experienced losses on the sale of cooling tower water treatment controllers in each year other than 2012/13, when the temporary sale of an unrelated product caused the company's overheads to be spread more thinly over a greater quantity of total sales.

It appears that the loss of sales volumes combined with price depression and suppression has caused Aquarius' profits to be lower than would have been the case had these effects not been present.

The company's profitability deteriorated in 2010/11, 2013/14 and 2014/15.

7.6 Other economic factors

In its application, Aquarius claimed that it had experienced injury in the form of other injury factors regarding:

- reduced assets;
- reduced capital investment;
- reduced revenue;
- reduced capacity;
- reduced capacity utilisation;
- reduced employment; and
- reduced cash flow.

We discussed the information provided by Aquarius in Confidential Appendix A7 to its application and verified the information where relevant. As a result of the discussion and verification, Aquarius provided a revised Confidential Appendix A7 (**confidential attachment 6**). Based on the revised Confidential Appendix A7 we make the following comments on the other injury factors.

Assets

Aquarius' assets reduced over the injury analysis period.

Capital investment

Aquarius does not claim a fall in capital investment.

Revenue

The applicant's revenue fell significantly between 2009/10 and 2012/13 but then rose between 2013/14 and 2015/16.

Capacity and capacity utilisation

Aquarius' capacity to produce cooling tower water treatment controllers and capacity utilisation fell over the injury analysis period.

Employment

Aquarius' employment levels fell from XX in 2009/10 to XX in 2011/12. The company abolished positions dedicated to sales, service and repairs and reduced resources applied to research and development. In 2015/16 Aquarius added a staff member to the research and development team

Cash flow

Aquarius' cash flow, as measured by accounts receivable, has remained relatively stable over the injury analysis period.

7.6.1 Conclusion – other injury factors

We consider that there is evidence to show that Aquarius has suffered injury in the form of:

- reduced assets;
- reduced revenue;

- reduced capacity;
- reduced capacity utilisation; and
- reduced employment.

7.7 Conclusion on injury

Based on an analysis of the information contained in the application and obtained and verified during our visit, we consider that the company has experienced injury in the form of:

- loss of sales volume;
- price depression;
- price suppression;
- profits foregone;
- reduced assets;
- reduced revenue;
- reduced capacity;
- reduced capacity utilisation; and
- reduced employment.

A conclusion on market share will be made following analysis of data gathered at visits to the importers of the goods.

8 CAUSAL LINK

8.1 Price effects

Aquarius claims that its prices were undercut by allegedly dumped imports of cooling tower water treatment controllers when they entered the market in significant volumes in 2010/11. Aquarius stated that, after it lost significant sales volumes, it was forced to reduce prices significantly to halt the loss of customers. The company also stated that, since that time, it had generally been unable to secure price increases due to the availability of the allegedly dumped controllers in the Australian market. Aquarius provided evidence of some price increases effective September 2016 for certain models to one major customer. Aquarius noted, however, that the price increases were small increases on depressed price levels.

Aquarius also provided evidence of offering significantly reduced prices to a former major customer in 2011 and 2012, and the company's response that it had made a commitment to another supplier.

Aquarius also supplied correspondence from a major customer received in 2016, which seeks reduced pricing on certain accessories to compete with low priced cooling tower water treatment controllers from the USA.

The Commission will examine Aquarius' claims of price undercutting in the course of the investigation.

8.2 Volume effects

Aquarius suffered a significant fall in sales volumes and market share in 2010/11, it claims due to significant volumes of allegedly dumped imports entering the market from the USA. Following the visit, Aquarius provided a list of companies that had been significant customers of Aquarius in 2009/10 and had reduced or ceased their purchases from Aquarius in 2010/11 and subsequent years.

8.3 Injury caused by factors other than dumping

8.3.1 GFC

Aquarius stated that the GFC had resulted in less new buildings, which had reduced the demand for cooling tower water treatment controllers. Aquarius factored falls in the total Australian market into its estimates of market share. Aquarius also noted that sales to new buildings are not the major source of demand for cooling tower water treatment controllers.

8.3.2 Company restructure

Aquarius stated that in 2010/11 there was a change in the company's management following the change in the company's ownership in 2010.

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX [Information regarding company changes]

9 UNSUPPRESSED SELLING PRICE

Unsuppressed Selling Price (USP) and Non-Injurious Price (NIP) issues are examined at an early stage of an investigation. The Commission generally derives the NIP by first establishing a price at which the applicant might reasonably sell its product in a market unaffected by dumping. This price is referred to as the USP.

As part of the investigation, the Commission will establish the USP. The USP is established by using the following hierarchy:

- Market approach: industry selling price at a time when the Australian market was unaffected by dumping;
- Construction approach: the Australian industry's CTMS, plus a reasonable rate of profit; or
- Selling prices of un-dumped imports in the Australian market.

Having calculated the USP, the Commission then calculates the Non-Injurious Price (NIP) by deducting costs incurred in getting the goods to the FOB point at export (or another point if appropriate). The deductions normally include overseas freight, duty, insurance, into store costs and amounts for other importer expenses and profit.

The Commission invited Aquarius to make a submission on its view on the most appropriate method to calculate the USP.

10 ATTACHMENTS

Confidential Attachment 1	Production process – Ultima controller
Confidential Attachment 2	Production process – CT1/CO1 controller
Confidential Attachment 3	Verification work program
Confidential Attachment 4	Schedule of major customers lost
Confidential Attachment 5	Invoices showing price depression
Confidential Attachment 6	Revised Appendix A7