Australian Government
Department of Industry, Innovation and Science

Anti-Dumping Commission

INVESTIGATION NO. 405

ALLEGED DUMPING OF WIND TOWERS EXPORTED TO AUSTRALIA FROM THE SOCIALIST REPUBLIC OF VIETNAM

VISIT REPORT - AUSTRALIAN INDUSTRY

KEPPEL PRINCE ENGINEERING 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

AUGUST 2017

CONTENTS

1 BACKGROUND

On 8 June 2017, the Commissioner of the Anti-Dumping Commission (the Commissioner) initiated an investigation into the alleged dumping of wind towers or sections thereof (the goods) exported to Australia from the Socialist Republic of Vietnam (Vietnam).

The application was lodged by Keppel Prince Engineering Pty Ltd (KPE) and Ottoway Fabrication Pty Ltd (OF), 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 of the goods exported from Vietnam.

In the application, KPE and OF allege that the Australian industry has suffered material injury caused by wind towers or sections thereof exported to Australia from Vietnam.

The background to the initiation of this investigation is contained in Consideration Report No. 405 (CON 405). Public notification of the initiation of the investigation was made on 8 June 2017 in Anti-Dumping Notice (ADN) No. 2017/78.

The public record version of the application, CON 405 and ADN 2017/78 are available on the Anti-Dumping Commission's (the Commission) website at www.adcommission.gov.au.

2 THE GOODS AND LIKE GOODS

2.1 The goods

The goods the subject of this investigation are:

> *Certain utility scale wind towers, whether or not tapered, and sections thereof (whether exported or assembled or unassembled), and whether or not including an embed being a tower foundation section.*

Further information regarding the goods is outlined below, as provided in KPE's application:

Wind towers are designed to support the nacelle (an enclosure for an engine) and rotor blades for use in wind turbines that have electrical power generation capacities equal to or in excess of 1.00 megawatt (MW) and with a minimum height of 50 metres measured from the base of the tower to the bottom of the nacelle (i.e. whether the top of the tower and nacelle are joined) when fully assembled.

A wind tower section consists of, at a minimum, multiple steel plates rolled into cylindrical or conical shapes and welded together (or otherwise attached) to form a steel shell, regardless of coating, end finish, painting, treatment or method of manufacture, and with or without flanges, doors, or internal components (e.g. flooring/decking, ladders, lifts, electrical junction boxes, electrical cabling, conduit, cable harness for narcelle generator, interior lighting, tool and storage lockers) attached to the wind tower section. Several wind tower sections are normally required to form a completed wind tower.

An "embed", or TBR (tower base ring), is the term used to describe the foundation section of the wind tower. This section is manufactured the same as a tower section only it is a lot shorter in height, usually comprising one or two steel plates rolled into barrels and joined with flanges attached. This section is usually cast into the ground a part of the towers foundation structure.

Wind towers and sections thereof (whether exported assembled or unassembled) are included within the scope of the goods the subject of this application whether or not they are joined with non-subject merchandise, such as nacelles or rotor blades, and whether or not they have internal or external components attached to the subject goods, or include an embed, being a tower foundation section.

Goods excluded from the application are:

- narcelles and rotor blades, regardless of whether they are attached to the wind tower.
- any internal or external components which are not attached to the wind towers or sections thereof.

Wind towers for different wind farm projects may or may not require a foundation section (embed) depending on the tower specifications.

2.2 Tariff classification

The goods are generally, but not exclusively, classified to the following tariff classifications in Schedule 3 to the *Customs Tariff Act 1995:*

Tariff classification				
Tariff code	***Stat Code***	***Unit***	***Description***	***Duty rate***
7308			*Structures (Excluding prefabricated buildings of 9406 and parts of structures (for example, bridges and bridge-sections, lock-gates, towers, lattice masts, roofs, roofing frameworks, doors and windows and their frames and thresholds for doors, shutters, balustrades, pillars and columns), or iron or steel; plates, rods, angles shapes, sections, tubes and the like, prepared for use in structures, or iron or steel:*	
7308.20.00			- *Towers and lattice masts*	
	03	T	*Tubular, whether or not tapered*	
	04	T	*Other*	5% DCS: 4% DCT: 5%
7308.90.00			- *Other*	
			Columns, pillars, posts and beams, girders, bracing gantries, brackets, struts, ties and similar structural units:	
			.Rolled formed structures:	
	52		*...Hot rolled*	
	53		*..Plated or coated with zinc or aluminium-zinc alloys, of a thickness less than 1.2 mm*	
	54		*..Plated or coated with zinc or with aluminium-zinc alloys, of a thickness of 1.2 mm or more*	
	55		*..Other*	
	56		*.Other*	
	63		*Sectional components, prepared for use in towers and lattice mats*	
	65		*Other*	

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31</td><td>

No</td><td>Electric Generating Sets and Rotary Converters:

--Wind-powered:

--AC generating sets of an output exceeding 500kVA</td><td>5%
DCS: 4%
DCT: 5%</td></tr>
<tr><td colspan="5">Previous tariff classification</td></tr>
<tr><td colspan="5">During the investigation period (1 January 2015 to 31 December 2016), the Commission notes that:
statistical code 02 pertaining to tariff sub-heading 7308.20.00 was replaced with statistical codes 03 and 04; and
statistical code 61 pertaining to tariff sub-heading 7308.90.00 was replaced with four statistical codes. Two of these (statistical codes 63 and 65) are relevant to the goods.[1]</td></tr>
</table>

Table 1: Goods as described in the application

[1] These changes was detailed in Australian Customs and Border Protection Notice No. 2015/19. This may be accessed at: https://www.border.gov.au/Customsnotices/Documents/ACN_2015-19.pdf

3 THE AUSTRALIAN INDUSTRY

3.1 Manufacturing in Australia

The Australian industry consists of three wind tower section manufacturers, KPE (based in Victoria), Ottoway Fabrication Pty Ltd (based in South Australia) and Haywards Pty Ltd (based in Tasmania).

KPE is the largest domestic producer of wind tower sections, which it manufactures at its site at Darts Road, Portland.

Wind tower sections are typically manufactured to International Standards. Steel plate grades are either sourced from Australia or overseas to meet the local and overseas standards. Aspects of the towers (such as the lifts, stairs, floors and internals) are required to meet Australian safety standards.

During the verification visit, the verification visit team conducted an inspection of KPE's production facility at Portland, which is where its wind towers are produced.

The visit team observed that the manufacture of like goods by KPE involves the following stages:

- Rolling of the processed plate into individual cylindrical steel cans or strakes meeting the precise specification diameter and curvature requirements;
- Welding according to specification to join edges and seams to form a tower section. This is followed by the precise fitting up of steel flanges;
- Surface treatment (including sand blasting) and then painting of steel surfaces; and
- Internal fit out of mechanical parts (platforms are either bolted or welded in, along with ladders, cable trays and safety fall arrest devices. All electrical main power cables, junction boxes and electrical lighting are installed).

Having examined KPE's manufacturing facilities and having observed the processes undertaken by KPE in manufacturing like goods, the verification visit team considers that KPE carried out, in Australia, at least one substantial process in the manufacture of like goods. In coming to this conclusion, the verification team have considered KPE's role in rolling, welding and surface treating the steel plate.

The verification team considers the processes undertaken by KPE is more than simple assembly, packaging or labelling.

The verification team concludes that the goods can be taken to have been partly manufactured in Australia and that they are, therefore, produced in Australia.

3.2 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.*

KPE manufactures wind tower sections matching the purchaser's specifications on a project-by-project basis. KPE considers that the wind tower sections it produces are like goods to wind towers that are exported to Australia from Vietnam. Specifically, KPE claims that the like goods it produces and the imported goods:

- are alike physically (all wind towers share basic physical characteristics – they are large tubular steel towers that support wind turbine narcelles);
- compete directly in the same market for each project;
- are manufactured in a similar manner; and
- have the same end-uses.

Based on discussions and verification with KPE, at this stage, the verification team 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.

3.3 Conclusion

The verification visit team are satisfied that:

- the goods produced by KPE are like to the imported goods;[2]
- at least one substantial process of manufacture is carried out in Australia;[3]
- the like goods were, therefore, wholly or partly manufactured in Australia by KPE;[4] and
- there is an Australian industry, which includes KPE, that produces like goods in Australia.[5]

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

4 AUSTRALIAN MARKET

4.1 Market structure, segmentation and substitutes

The Australian market for wind towers and sections thereof is supplied by KPE, other industry members and imports from Vietnam, the Republic of China (China) and Korea.

The wind tower market can be segmented into two wind farm segments according to scale:

1. Large scale commercial wind farms; and
2. Community wind farms which are largely owned by local community members.

Australian manufactured wind towers and imported wind towers compete in both market segments.

Generally, the broad driver of wind farm installations has been the growing international trend of nations increasing in-country supply of renewable energy sources. The primary driver of renewable energy demand has been Commonwealth Government legislation found in the *Renewable Energy (Electricity) Act 2000 (Cth)*, which requires electricity retailers to source an increasing proportion of their electricity from accredited renewable sources, via the Renewable Energy Target (RET). These sources principally include wind and solar.

As noted in Australian industry's application, there are no commercially significant market substitutes for wind towers in the Australian market.

Possible substitutes for wind towers are cylindrical concrete wind towers and lattice steel towers. However, given the Australian market's needs and preferences, neither of the two possible substitutes is considered an option and their use or consideration has not been identified in the Australian market.

4.2 Marketing and distribution

The supply chain for wind towers has traditionally been controlled by the wind turbine original equipment manufacturers (OEMs) whose clients are the wind farm proponents/developer. As such, KPE's Australian sales have been made to OEMs during the investigation period.

A wind tower supply tender is placed, typically with pre-qualified tower manufacturers, both locally and overseas. The tender may call for ex-works price offers or pricing delivered to site. Local currency is used for wind tower pricing. At times, tenders may call for offers based on a mix of free-issue material components, which may include any combination of the following inputs supplied by the OEM to be combined with the production components of the wind tower manufacturer:

- Steel plate;
- Flanges;
- Flange bolts;
- Paint;

- Mechanical internal components;
- Main electrical cables and allied components; and
- Lifts.

KPE stated that there are seven main wind unit suppliers for wind farms in the Australian market, these are:

- GE Energy (GE);
- Goldwind Australia Pty Ltd (Goldwind);
- Senvion Australia (formerly REpower Australia);
- Siemens Gamesa Ltd Australia (Siemens);
- Acciona Energy Oceania Pty Ltd (Acciona);
- Vestas Wind Systems A/S (Vestas); and
- Suzlon Energy.

The market for wind towers involves a tender process for each project. KPE provided a brief summary of the process as follows:

Project phase

OEMs are first invited to tender for wind farm project. At that time KPE may be invited to provide a first offer to an OEM, which forms part of the information that the OEM submits to try and win the project the wind farm proponents/developer.

Price negotiations – wind towers phase

This is the key stage at which price negotiations take place. KPE is usually approached by clients via email, then receives further details and provides a first estimate based on the number of towers, the height of the towers and the specifications.

KPE submits this first estimate and then usually gets feedback on its offer within a month or two. This is then followed by more discussion, with KPE typically being asked to find cost savings.

The first option provided by KPE always involves the full specifications but then KPE identifies areas that can be deviated from. Some OEMs wants full, original specifications whereas others may get KPE to resubmit a quote with KPE's cost saving suggestions.

The second round estimate is completed within three months.

During the bidding process KPE has responded to import prices claimed to be available to OEMs and has lowered its bids in response to these (such as on the Ararat and Hornsdale projects). However, KPE stated that it will not ordinarily negotiate a price that would see it making a loss.

4.3 Market size, demand and future trends

Demand for wind towers in Australia has fluctuated during the injury analysis period (from 1 January 2013).

The following figure depicts the Commission's estimate of the Australian market based on the date of contract for supply for wind towers using information provided in the application, requested by the Commission and verified with KPE. The Commission estimates that in calendar year 2015 the size of the Australian market for wind towers was approximately 189 towers with 75 embeds and the size of the Australian market in 2016 was 78 towers and 2 embeds.

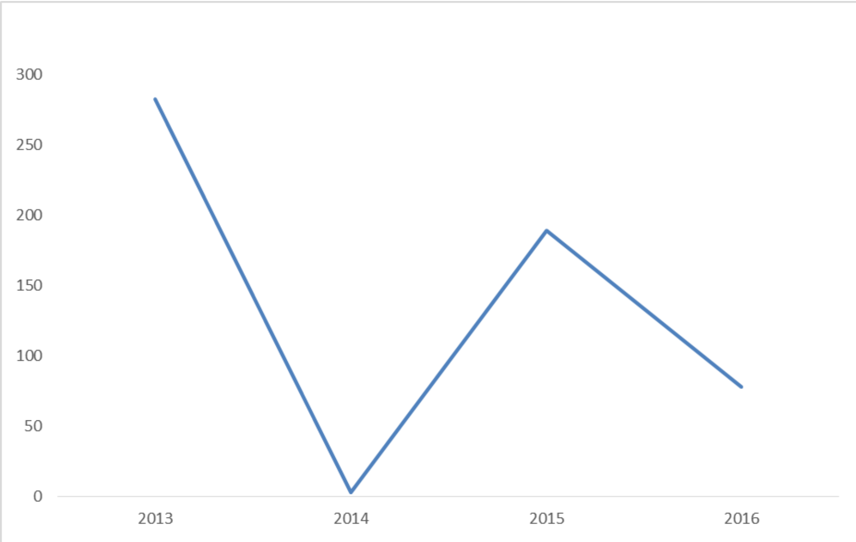

Figure 1: Size of Australian wind tower market – number of towers awarded

Going forward, it is expected that the market will grow significantly in 2017 and 2018. KPE advised that over 400 wind towers had been tendered for in the first half of 2017 alone.

KPE also observed that over time, the size energy output of each wind tower has increased, which has resulted in heavier narcelles and therefore larger wind towers as support. It is expected that this trend will continue. KPE indicated that it is able to produce towers to the specifications currently being tendered for but noted that larger towers put more strain on its equipment.

5 VERIFICATION OF SALES

5.1.1 Verification of Australian sales to financial statements

The verification visit team verified the completeness and relevance of KPE's sales spreadsheet by reconciling it to the company's financial statements in accordance with ADN. No 2016/30.

Details of the verification are contained within the verification work program as **Confidential Attachment 2.**

The verification visit team did not find any significant variances or issues.

5.1.2 Verification of sales data to source documents

The verification visit team verified the accuracy of KPE's Australian sales spreadsheet by reconciling it to source documents in accordance with ADN. No 2016/30.

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

The verification visit team detected an error concerning the transport cost reported for one project and on error regarding the number of towers pertaining to a payment. These issues were corrected by the visit team. The visit team did not find any further issues.

5.2 Verification of sales data – conclusion

Having regard to the above, the verification visit team consider that the corrected Appendix A4 sales data is an accurate, relevant and complete account of its sale of like goods during the period from 1 January 2015 to 31 December 2016.

6 VERIFICATION OF COST TO MAKE AND SELL

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

The verification visit team verified the completeness and relevance of KPE's cost to make and sell (CTMS) spreadsheet by reconciling it to the company's financial statements in accordance with ADN. No 2016/30.

Details of the verification are contained within the verification work program at **Confidential Attachment 2**.

The verification visit team noted some minor inconsistences in relation to the allocation of standard cost variances in the reconciliation of overall variance to specific projects. KPE was able to provide an explanation of why this had occurred. The verification team is satisfied with the methodology applied by KPE to allocate the variances to projects is correct and is satisfied that variances have been fully and accurately allocated to relevant wind tower projects.

During the upwards verification an error was identified, which resulted in the understatement of costs for one project. KPE submitted a revised CTMS spreadsheet that recorded the correct costs for this project.

The verification visit team did not find any other material discrepancies or issues reconciling data in the CTMS spreadsheet to KPE's financial statements.

6.2 Verification of production costs to source documents

The verification visit team verified the accuracy of KPE's CTMS spreadsheet by reconciling it to source documents in accordance with ADN. No 2016/30.

Details of the verification are contained within the verification work program at **Confidential Attachment 2**.

The verification visit team did not find any other material discrepancies or issues reconciling data in the CTMS spreadsheet to source documents. As mentioned above, the verification team consider that KPE's allocation methods are reasonable.

6.3 Relationship with suppliers

KPE advised that it typically sourced its steel plate from BlueScope Steel Limited. It imports flanges from overseas and may source other components either locally or from overseas.

KPE advised that it has no relationship or association with its raw material suppliers. The verification visit team did not any evidence of non-arms' length transactions with suppliers.

6.4 CTMS – conclusion

The verification visit team consider that KPE’s CTMS data in the revised Appendix A6 is a reasonably complete, relevant and accurate reflection of the actual costs to manufacture and sell the goods during the period from 1 January 2015 to 31 December 2016.

Accordingly, the verification visit team consider KPE’s CTMS data in the revised Appendix A6 is suitable for analysing KPE’s economic performance of its wind tower business over the injury analysis period.

7 ECONOMIC CONDITION

7.1 Approach to injury analysis

Although the Commission has collected data from KPE for the period from 1 January 2013 (injury analysis period), it is noted that, for the purpose of determining injury and causal effects, earlier periods of the injury analysis period were affected significantly by matters unrelated to dumping from Vietnam (e.g. the RET). As a result, the Commission's usual practice of examining injury and causal effects using a 'coincidence analysis' (by comparing the state of the Australian industry in the investigation period to a point in time prior to the injury having commenced) is less meaningful. Consequently, although the verification visit team has provided graphs in this chapter from the beginning of the injury analysis period, this is for context only. Given the uniqueness of each tender and the variability in what may be supplied, the verification team considers that it is most appropriate to assess injury by examining each tender individually.

Accordingly, the injury analysis detailed in this section is primarily based on information in respect of specific tenders during the investigation period, but also considers general financial information submitted by KPE.[6]

7.2 Applicant's injury claims

KPE claims that the Australian it has been injured through:

- loss of sales volume;
- loss of market share;
- loss of revenues;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced capacity utilisation;
- constraint on capital investment; and
- reduced return on investment (ROI).

7.3 Commencement of injury, and analysis period

KPE claims that injury commenced in 2013, and that material injury occurred between 1 January 2015 and 31 December 2016. The verification visit team has reviewed the period from 1 January 2013 in its injury analysis with particular attention to 1 January 2015 to 31 December 2016 as the investigation period.

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[6] The Statement of Essential Facts will consider the economic condition of the industry as a whole.

7.4 Volume injury

7.4.1 Sales volume

Figure 2 below depicts the sales volume of the Australian market from 2013.

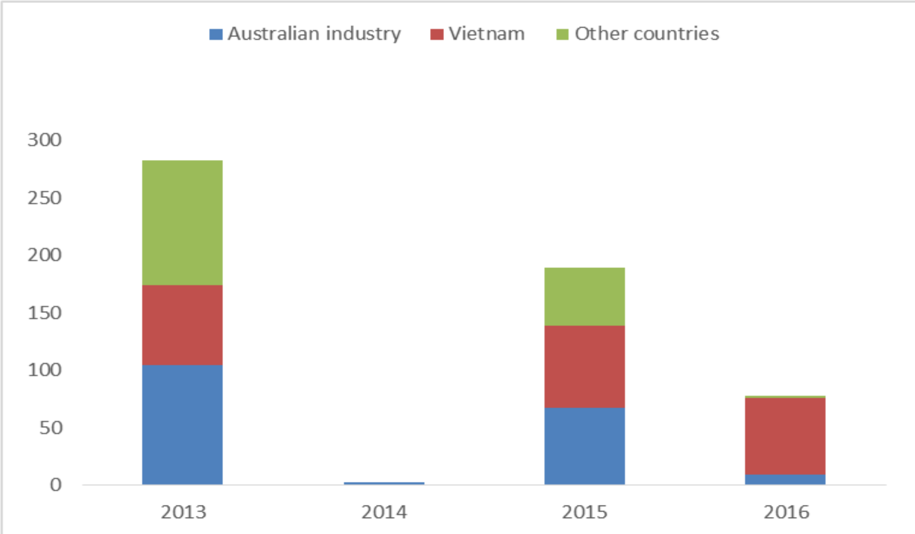

Figure 2: Australian wind tower market sales volume

Figure 2 demonstrates that the wind tower market in Australia diminished overall during the injury analysis period, however, Vietnam has largely maintained its market share in the diminishing market. In contrast, the Australian industry and other overseas suppliers' share of the Australian market has reduced.

Figure 3 below depicts the volume of towers won by KPE.

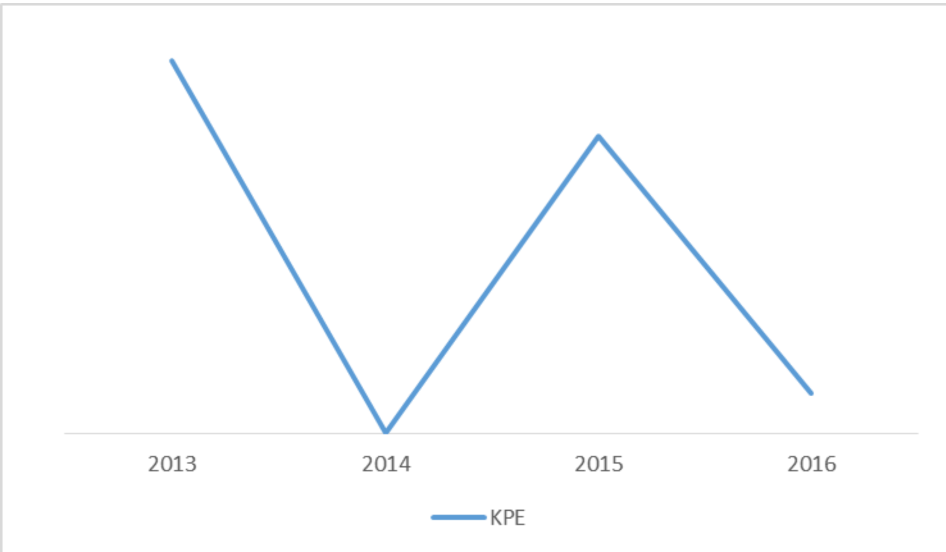

Figure 3: Volume of towers won by KPE

In assessing volume effects the Commission has examined the number of wind towers placed for tender over the investigation period; the number of wind towers that KPE successfully bid for; and the number of wind towers where KPE was unsuccessful.

A total of 267 towers and 77 embeds were available for tender during the investigation period, including:

- Coonooer Bridge (6 towers);
- Ararat (75 towers, 75 embeds);
- Waterloo Stage 2 (6 towers);
- White Rock (70 towers);
- Hornsdale 1 (32 towers);
- Hornsdale 2 (32 towers);
- Hornsdale 3 (35 towers);
- Coober Pedy (2 towers and embeds); and
- Kiata (9 towers).

KPE was the successful bidder for the entire Coonooer, Waterloo Stage 2, and Kiata projects. KPE was partially successful in its bids for Ararat[7] and Whiterock[8] and was unsuccessful in its bids for each stage of the Hornsdale project and Coober Pedy.

In particular:

- forty of the 75 towers and all 75 embeds in respect of the Ararat project were sourced from Vietnam; and
- all 99 towers for the three stages of the Hornsdale project were sourced from Vietnam. [9]

KPE supplied information in relation to the lost bids and claimed that it had lost sales in the investigation period to the allegedly dumped imports from Vietnam. Based on the information provided, the visit team considers that KPE has suffered injury in the form of reduced volumes.

7.4.2 Market share

Figure 4 below demonstrates the proportion of the Australian market that was supplied by Vietnam, the Australian industry and other countries. It also depicts the loss of market share for the Australian industry between 2013 and 2016 and the proportional growth of Vietnam's market share during that time. Due to the impact of the RET, the market reduced to three wind towers in 2014. The Australian Industry's proportion of the market in 2013 was 37%, reducing marginally to 35% in 2015 and more sharply to 12% in 2016.

[7] KPE was successful in bidding for 35 of the 75 towers on offer in respect of the Ararat project.
[8] KPE was successful in bidding for 20 of the 50 towers on offer in respect of the White Rock project.
[9] KPE did not claim injury in respect of the Hornsdale project, despite bidding for it, to ensure that there is no double counting of injury claimed in its joint application with OF.

Conversely, Vietnamese exports made up 25% of the market in 2013 growing to 38% in 2015 and 86% in 2016.

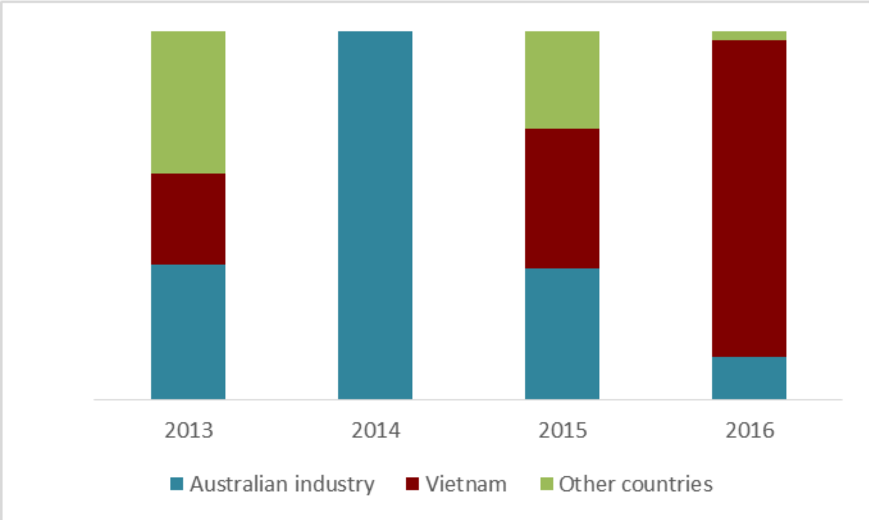

Figure 4: Australian wind tower market share

Figure 4 also demonstrates the decline in market share of the Australian industry during the injury analysis period. A small contract of three wind towers went to tender in 2014 (not won by KPE).

From the figures above, the verification team considers that KPE appears to have experienced loss of market share from FY 2013 to FY 2016 and that this market share has been lost to exporters of the goods in Vietnam. The loss of market share of Australian industry is most pronounced during the investigation period.

Given the outcome of the tenders in 2015 and 2016 (as noted at section 7.4.1 above), the visit team considers that KPE has suffered injury in the form of reduced market share.

A detailed list of the wind tower projects won by Australian industry and exporters is available at **Public File Attachment 4 Australian Wind Tower Market.**

7.4.3 Conclusion – volume effects

Based on the information provided, the verification visit team considers that there is evidence to support KPE's claim that the Australian industry has experienced injury in the form of lost sales volume and lost market share.

Further analysis of the verification team's assessment of volume effects is contained in **Confidential Attachment 2 – Market Share and Volume Effects Injury analysis.**

7.5 Price suppression and depression

KPE claimed that it experienced injury in the form of price suppression and price depression in the injury analysis period.

7.5.1 Price suppression

Price suppression occurs when price increases for the applicant's product, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between revenues and costs.

Figure 4 demonstrates that unit CTMS and unit sales revenue data follow a similar trend over the injury analysis period. Unit CTMS is consistently higher than unit sales revenue, however, the difference between unit CTMS and unit sales revenue narrows over the injury analysis period resulting in smaller net losses each year.

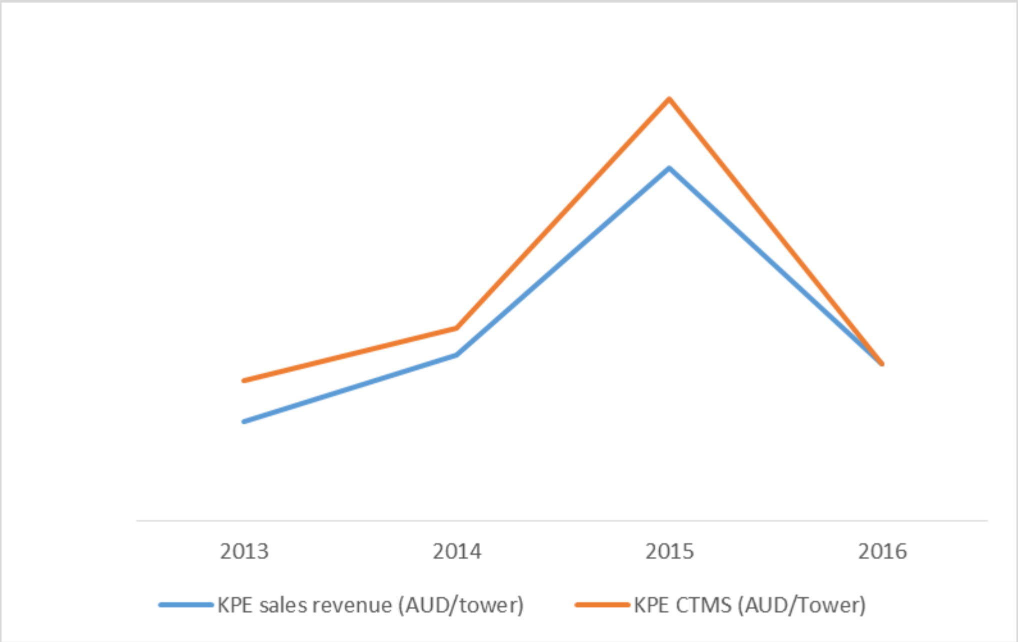

Figure 4: Comparison of KPE Unit CTMS and Unit Sales Revenue

From 2013 to 2015, unit CTMS increased but then declined in 2016. The retrenchment of 85 staff in late 2014, which KPE attributes to the uncertainty in the RET, as well as manufacturing efficiencies resulted in a reduction in the cost of production per tonne. Despite improving efficiencies, which has resulted in declining unit CTMS, at the end of the injury analysis period, KPE is still experiencing a net loss. During the visit KPE provided evidence in support of its labour efficiency improvements. KPE also advised that it had consolidated its School Road and Darts Road workshops in late 2014, which resulted in a significant reduction in staff and operating costs.

7.5.2 Price depression

Price depression occurs when a company, for some reason, lowers its prices.

KPE stated that it has regard to import prices and has lowered its bids in response to these and provided supporting evidence of this to the visit team.

7.5.3 Conclusion – price effects

The verification team reviewed the information provided by KPE in relation to price suppression and price depression and considers that there is reasonable grounds to support the claim that the Australian industry suffered injury in the form of price suppression and price depression due to the need to reduce prices to meet a target price during the investigation period.

7.6 Profits and profitability

KPE stated that all bids are assessed on the basis of their gross profit contribution to the company.

The visit team compared the margins that KPE achieved over the injury analysis period on various projects and found that most were negative, with a result that the wind towers business was negative during the injury analysis period, as depicted in Figure 5 below.

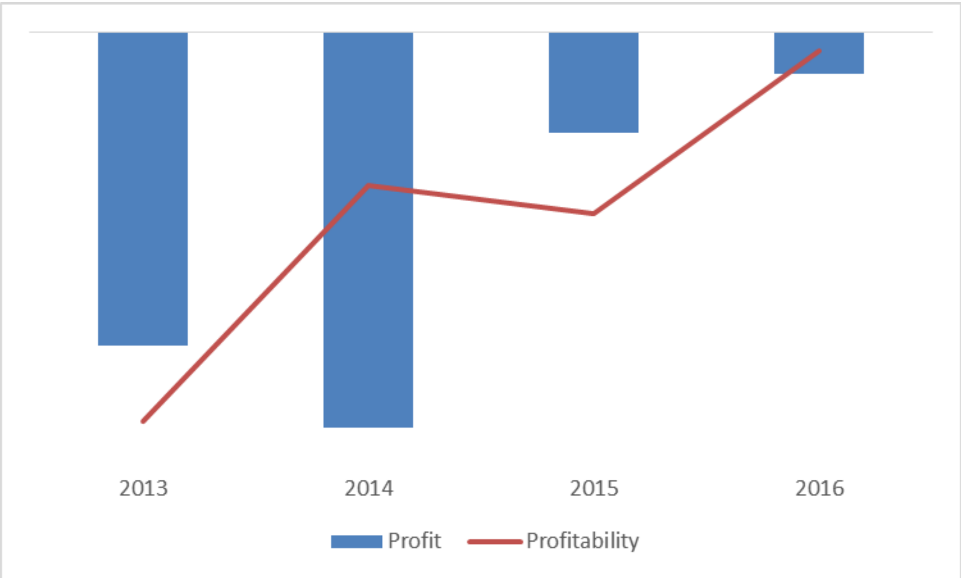

Figure 5: KPE profit and profitability of wind tower business

7.6.1 Conclusion – profit effects

Based on reduced quotes to match target prices and missed sales, the verification visit team considers that there appears to be reasonable grounds to support claims that the Australian industry has suffered injury in the form of reduced profits and profitability during the investigation period.

7.7 Upcoming tenders/contract

KPE indicated that it was still experiencing ongoing price pressures for current and upcoming projects at the time of this report including:

- Salt Creek;

- Gellibrand (stages I and II);
- Maroona; and
- Dundonnell.

7.8 Other injury factors

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

- reduced capacity utilisation;
- constraint on capital investment;
- reduced ROI; and
- reduced revenues.

7.8.1 Reduced capacity utilisation

As demonstrated in Figure 6, KPE's capacity utilisation increased between 2013 and 2014 with a significant decrease in 2015 before rising again in 2016. KPE did not reach full capacity at any time during the injury analysis period.

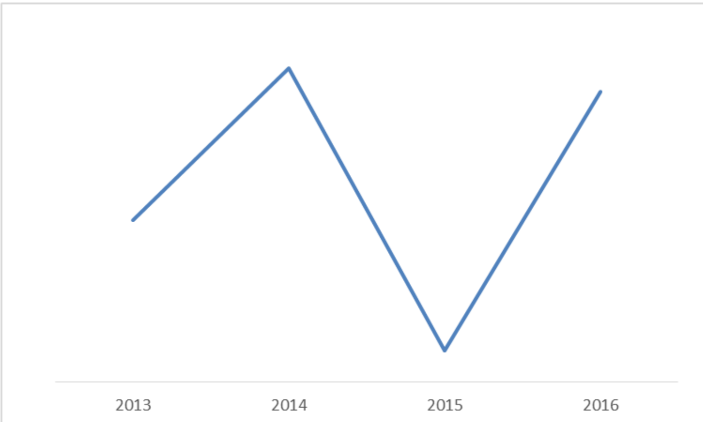

Figure 6: KPE Capacity utilisation

7.8.2 Constraint on capital investment

As shown in Figure 7, capital investment has not followed a consistent trend however has seen a decrease from 2014 to 2015 before recovering in 2016. Figure 8 shows that the value of assets related to the production of like goods the subject of the investigation has declined over the injury analysis period.

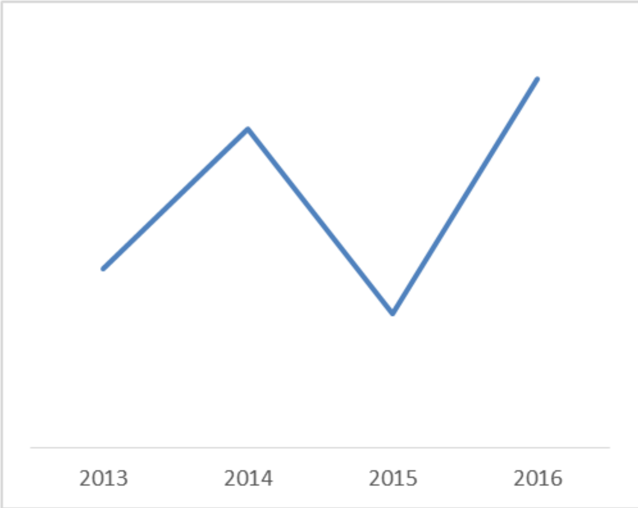

Figure 7: Capital investment in KPE's Wind Energy Division

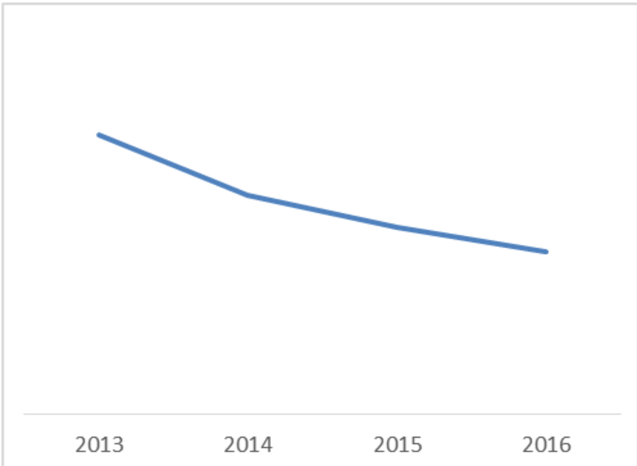

Figure 8: KPE Value of Wind Energy Division Assets

7.8.3 ROI

The KPE application calculates ROI based on gross profit over assets. The verification visit team examined evidence of KPE being unsuccessful on bids based on negotiations of price, resulting in price suppression and price depression affecting profits and profitability. Reduced profit consequently resulted in a reduced ROI. ROI has seen a marginal decline between 2015 and 2016, as shown in Figure 9 below.

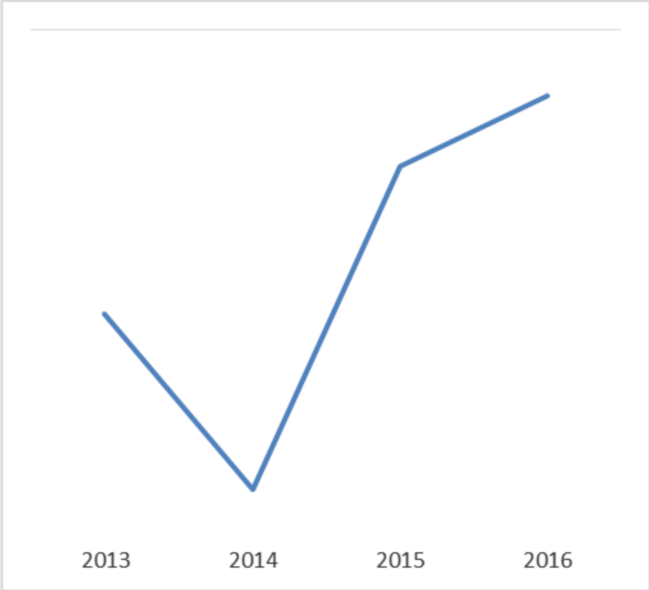

Figure 9: KPE ROI in Wind Energy Division

7.8.4 Revenue

KPE revenue from like goods has reduced between 2014 and 2015, but recovered in 2016 as shown in Figure 10 below.

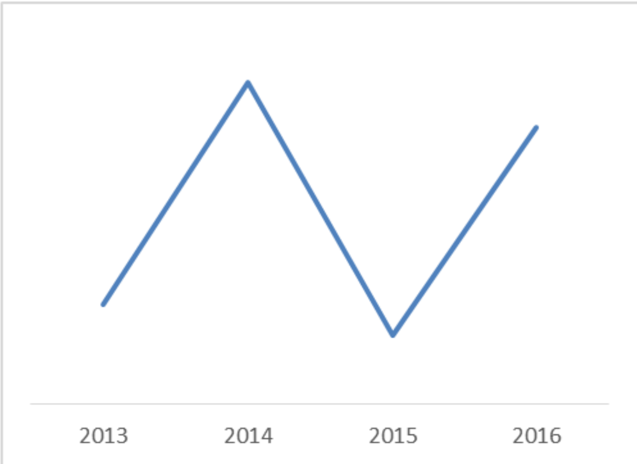

Figure 10: KPE Revenue for Wind Energy Division

7.8.5 Employment

Employment within the Wind Energy Division decreased between 2013 and 2014, explained by the retrenchments of employees as a consequence of temporarily ceasing wind tower operations in 2014. Since 2014, the number of employees have risen but has not recovered to 2013 levels.

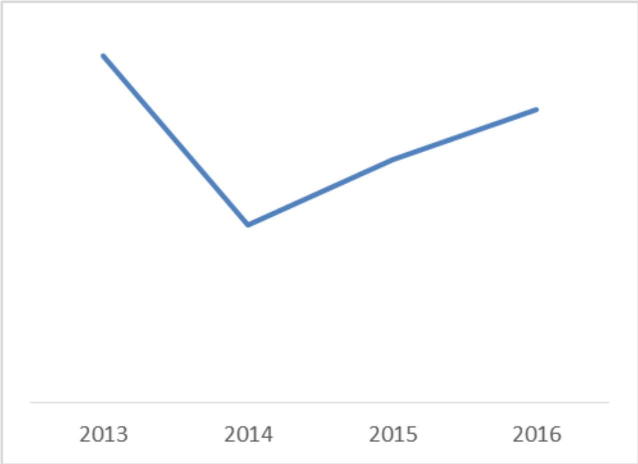

Figure 11: KPE Employees for Wind Energy Division

7.8.6 Productivity

Productivity of the Wind Energy Division increased between 2013 and 2014 but declined between 2014 and 2015. Productivity increased between 2015 and 2016 but not to 2014 levels. Productivity was impacted in 2015 following very little demand for wind towers in 2014.

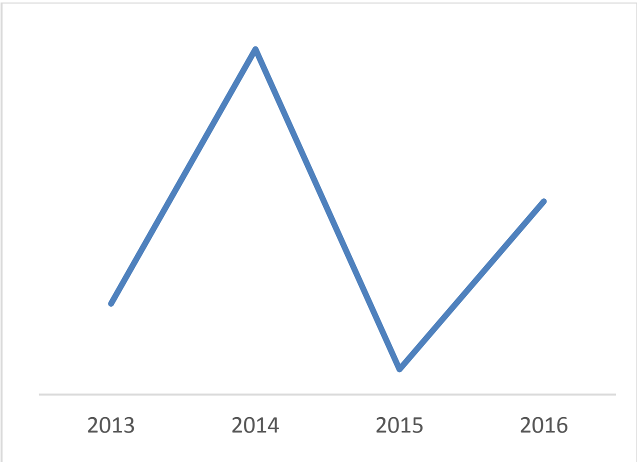

Figure 12: KPE Productivity of Wind Energy Division

7.8.7 Wages

Wages fell between 2014 and 2015, correlating with the reduction in employee numbers following the retrenchments at the end of 2014. Wages have increased with the increase of employee numbers between 2015 and 2016.

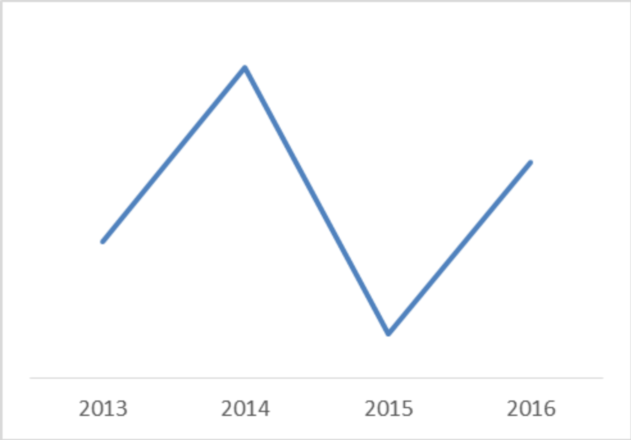

Figure 13: KPE Wages for Wind Energy Division

7.8.8 Conclusion – other injury factors

The verification visit team considers that there is evidence that KPE has suffered injury during the period 2013 to 2016 in the form of:

- reduced capacity utilisation;
- constraint on capital investment;
- reduced ROI;
- reduced revenue;
- reduced employment;
- reduced productivity; and
- reduced wages.

Each of these factors have moved adversely during the injury analysis period and in some cases have recovered to some extent between 2015 and 2016 following resolution of the RET.

7.9 Conclusion on injury

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

- loss of sales volume;
- loss of market share;
- loss of revenues
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;

- reduced capacity utilisation;
- constraint on capital investment; and
- reduced ROI.

8 CAUSAL LINK

8.1 Background

While KPE states that it suffered injury in the period 2013 to 2016, material injury caused by alleged dumping of wind towers from Vietnam has only been claimed in 2015 and 2016.

The verification team assessed the claims made by KPE that there is a causal link between injury and alleged dumping from Vietnam during the investigation period.

The verification team found that loss of sales volume, market share, revenue, price effects and profitability effects claimed by KPE have been quantified by reference to specific tenders. However, injury factors claimed by KPE regarding reduced capacity utilisation, constrained capital investment and reduced return on investment are recognised as having been partly attributable to the RET.

The verification team also examined a range of factors other than dumping to consider whether these may be causing injury, namely, the RET, the impact of other sources of renewable energy, foreign exchange movements, the geographical location of windfarms, the presence of other impacts and non-price related factors in the assessment of tenders.

8.2 Volume effects

Overwhelmingly, the RET and investments in the wind tower market decide the number of wind towers that will be required.

Year	Industry demand	Tenders won by KPE (towers)	Share won by KPE (towers)	Share won by CS Wind (towers)
2013	283	84	30%	25%
2014	3	0	0%	0%
2015	189	67	35%	38%
2016	78	9	13%	86%

Table 2: Market demand and tenders won by KPE

In 2013, KPE, Vietnamese exports and Chinese exports held similar market shares. In 2014, as a result of uncertainty with the RET demand for wind towers fell dramatically resulting in no tenders being won by KPE, Vietnam or China.

As noted above, there is a high level of transparency in the market once the tenders have been awarded. This means KPE is able to ascertain the competitor that it lost out to in wind tower tenders.

Due to this price competition KPE appears to have lost tenders to CS Wind Vietnam consisting of 75 embeds and 139 towers (in respect of the Ararat and Hornsdale projects).

The volume injury experienced by KPE due to the contraction of the wind towers market, especially in 2014, is attributable to the RET.

8.3 Price effects

KPE claims that its prices were undercut by allegedly dumped imports of wind tower sections and embeds from Vietnam.

Due to the nature of the tender process, there is minimal transparency during the bidding period concerning competitor bids. However, successful bidders are generally made public through OEM's or the wind farm's website following the outcome of a tender. As such, it is generally clear when sales have been lost by the Australian industry to exports from Vietnam.

As requested by the Commission, KPE provided evidence of price pressure (for both successful and unsuccessful tenders) in order to establish the causal link between the allegedly dumped imports and the injury suffered as a result of price undercutting and price suppression.

Price negotiations

KPE supplied the verification team with evidence regarding price negotiations. The visit team observed that the winning bidder for the projects KPE lost or partially lost (except in the case of White Rock),[10] was CS Wind Vietnam.

Based on the evidence provided, the verification team was satisfied that KPE was required to lower its prices and experienced price suppression, price depression and negative impacts upon its profitability.

Further investigation

The Commission will further examine KPE's claims of the impact on prices during the course of the investigation. In particular, importer visits will provide an understanding of pricing. The importer visits will also shed light on any factors, other than price, that may have impacted upon tender decisions made by OEMs.

8.4 Profits and profitability

KPE alleged that injury to profit and profitability occurred in two ways:

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[10] The other supplier in the White Rock negotiation was a Chinese exporter, however, unlike the negotiations to meet the price of Vietnamese exports, KPE achieved a positive margin despite being the price competition for White Rock.

i. Price pressure through competing with the alleged dumped export price from CS Wind resulting in lower margins for contracts won by KPE; and
ii. Loss of profits through lost sales volumes due to unsuccessful bids (partially or entirely).

KPE also claimed that its gross profit and net profit margins had been reduced on other projects for which it had successfully tendered.

Given that KPE lost volumes during the investigation period the Commission considers that KPE has suffered injury in the form of reduced profits.

8.5 Capacity utilisation

The significant lead times for wind tower projects means that capacity utilisation figures follow the number of towers awarded in the previous year.

Year	KPE production (towers per annum)	KPE capacity based on actual production
2013	33.1	27%
2014	64.1	53 %
2015	6.4	5%
2016	59.3	49%

Table 3: KPE wind tower production as a percentage of capacity

The capacity of KPE during the injury analysis period was between 121 wind towers per annum (assuming a three section tower). During 2013 to 2016, KPE's capacity was significantly under-utilised particularly in 2014 and 2015 (owing largely to the RET). However, its capacity was also substantially under-utilised in 2016, which followed a year in which the market for wind towers was more substantial. The under-utilisation of KPE's facilities in 2016 can be attributed to contracts lost to CS Wind Vietnam in 2015.

8.6 Constraint on Capital Investment

KPE submitted in its application that its directors in the 2015 and 2016 saw opportunities for increasing capacity due to the increased market following the resolution of the RET but that the presence of alleged dumped imports had led to these plans being reconsidered as it was unable to secure adequate contracts during the injury analysis period.

During the verification visit, KPE indicated that some of its previously delayed plans to expand capacity were now progressing and would be occurring later this year. This will involve the installation of two new dust extractors that will allow the facility to operate two blasting chambers simultaneously. This plan will result in KPE's production capacity expanding to approximately 175 towers per year (based on a three section tower).

KPE claimed that further expansion plans were contingent upon it securing further contracts and was thus influenced by the presence of allegedly dumped imports of towers from Vietnam.

8.7 Return on Investment

KPE submitted in its application that lower prices, loss of sales volumes and reduced margins and profitability caused by the alleged dumped imports from Vietnam have resulted in reduced returns on investment for KPE.

The verification team confirmed with KPE that the ROI calculations accounted for the rationalisation of staff and operations.

As a result of this rationalisation, ROI markedly improved in 2015 and 2016. As such, it is difficult to determine how the alleged dumped imports from Vietnam impacted upon KPE's ROI.

8.8 Revenue

KPE submitted in its application that it has lost revenues through reduced revenue on the wind towers it supplied to the Ararat and Kiata projects.

Given that KPE lost volumes during the investigation period the Commission considers that KPE has suffered injury in the form of reduced revenue.

8.9 Injury caused by factors other than dumping

The verification team considers collected information and KPE's views in relation to whether injury is being caused by a factor other than the exportation to Australia of the allegedly dumped goods.

8.9.1 Renewable Energy Target

The Renewable Energy Target (RET) is a significant driver of demand for wind towers in the Australian market. The RET is an Australian Government scheme designed to reduce emissions of greenhouse gases in the electricity sector and encourage the generation of electricity from sustainable and renewable sources. The target is set by the Australian government to the year 2020. In 2014 there was a delay in the agreement of the RET, which resulted in a downturn in the industry and investment in wind energy being delayed. This resulted in the Australian industry demand for wind towers falling from 283 towers in 2013 to just three in 2014, with flow on effects for profit, profitability, volume capacity utilisation and capital expenditure.

<u>Isolation of certain injury effects resulting from the RET</u>

During the discussion concerning the RET and its effects upon KPE the verification team inquired as to whether the effects of the RET and the resulting closure (and subsequent re-opening) of the wind tower business could be isolated to 2014 and the early part of 2015.

KPE indicated that two key costs associated with uncertainty resulting from the RET was the cost of staff redundancies, re-hiring and re-training and lost productivity during the initial stages of an employee's training.

KPE confirmed that redundancy costs were incurred prior to the investigation period and that re-hiring, retraining and lost productivity during the initial stages of employee training were not included in the cost calculations for the wind energy business.

KPE confirmed that machinery used in the wind towers energy division was able to be redeployed to other parts of the business, to minimise the costs to business resulting from the loss of capacity utilisation.

KPE stated that uncertainty surrounding the RET had now been resolved. The verification team found that strong support for the current RET within state and territory governments, has meant that ongoing uncertainty concerning the RET in Australia has been resolved. According to the Clean Energy Council's annual publication Clean Energy Australia Report 2016, the support of state and territory governments to support renewables has had the effect of "returning stability to a market that was badly shaken following an extended review of the RET" but also has provided "robust national energy and climate policy beyond 2020" (Clean Energy Australian Report 2016). This will provide a longer term investment horizon for the industry. The verification team also received feedback from the Australian Government Clean Energy Regulator that it expects wind energy to provide up to 60% of RET driven demand to 2020.

KPE submitted that the RET did not detract from the conclusion that material injury on the basis of the price, volume and profit factors caused by the alleged dumped imports.

8.9.2 Impact of other sources of renewable energy

The verification team also reviewed competition from other sources of renewable energy particularly in light of solar energy becoming more cost effective. The verification team was satisfied that there was no significant direct competition from other sources of renewable energy that has impacted KPE during the investigation period.

8.9.3 Foreign exchange movements

As stated in KPE's application, during the injury analysis period, the AUD became weaker against the USD which should have had the effect of making KPE products more price competitive when compared to buyers purchasing towers from overseas suppliers, which are supplied in USD (and EURO). As such, foreign exchange movements would not have made imports any more affordable.

8.9.4 Geographical location of windfarms

At the Australian Industry visit, the verification team discussed other factors that would impact the competitiveness of KPE against its competitors. One such factor is the geographic location of the wind farm and its distance to KPE's facilities in Portland. In reviewing the Ararat project, the verification team found that Portland's close proximity to

Ararat should have made it a more appealing supplier from the standpoint of transportation costs.

KPE submitted that the Hornsdale project increased transport costs to a point that could have made its bid uncompetitive against made by OF.

KPE indicated that it is most competitive on transport costs within an identified radius of its production facilities in Portland and acknowledged that there are certain areas where it is not competitive on price due to the location of the wind farm. These areas are Western Australia, Queensland, the Northern Territory, and certain locations in northern New South Wales.

KPE indicated it would provide a fuller explanation of KPEs views on its competitiveness in certain locations in a submission.

8.9.5 Presence of other imports

In its application and at the Australian industry visit, KPE confirmed the presence of dumped exports from countries other than Vietnam during the injury analysis period and that these affected margins on the KPE projects in 2013. However, the investigation and subsequent measures applied in 2013 saw an improvement in margins for KPE.

The verification notes that Investigation 221, which had an investigation period of 1 January 2012 to 30 June 2013 found that wind towers were exported to Australia from China and Korea at dumped prices. The verification team confirmed that imports from China and Korea have been supplied to the market over the injury analysis period, most notably in 2013.

8.9.6 Non-price related factors

The visit team questioned KPE regarding non-price factors such as quality and timeliness. KPE submitted that it has always satisfied the qualification standards of the OEMs it has supplied and that quality issues have not caused it to lose a project or for a project to be delayed.

9 UNSUPPRESSED SELLING PRICE

As part of the investigation, the Commission will establish an unsuppressed selling price (USP). The USP is generally 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 a non-injurious price 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.

KPE submits that given the unique design of each wind tower that differs from each OEM and each project that it is not practicable to calculate and establish a USP.

Each OEM has a range of tower designs unique to that OEM that are suited for the type of project, these tower designs differ significantly by cost and price.

In addition, there may be a range of free issue items, including flanges and internals that affect the cost and final pricing of the tower.

10 APPENDICES AND ATTACHMENTS

Confidential Attachment 1	Verification work program
Confidential Attachment 2	Market Share and Volume Effects Injury Analysis
Confidential Attachment 3	Price and Profitability Effects Analysis
Confidential Attachment 4	Other Injury Factors Analysis
Confidential Attachment 5	Summary Analysis and Evidence Relating to Causal Link Analysis
Confidential Attachment 6	Summary Analysis and Evidence Relating to Other Injury Factors