PUBLIC RECORD

Australian Government
Anti-Dumping Commission

INVESTIGATION INTO THE ALLEGED DUMPING OF WIND TOWERS EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA AND THE REPUBLIC OF KOREA

EXPORTER VISIT REPORT

SHANGHAI TAISHENG WIND POWER EQUIPMENT CO., LTD (TSP)

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 CUSTOMS AND BORDER PROTECTION

JANUARY 2014

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1 BACKGROUND

1.1 Application

On 6 August 2013, A.C.N. 009 483 694 Pty Ltd (Haywards) and Keppel Prince Engineering Pty Ltd (KPE) lodged an application with the Anti-Dumping Commission (the Commission) requesting that the Minister for Home Affairs publish a dumping duty notice in relation to wind towers exported to Australia from the People's Republic of China (China) and the Republic of Korea (Korea).

In their application, the applicants allege that the Australian industry has suffered material injury caused by wind towers exported to Australia from the nominated countries at dumped prices.

The applicants claim that material injury in respect of wind towers commenced impacting profits and profitability in 2010. The application identified the injurious effects as:

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

On 28 August 2013, following consideration of the application, the Anti-Dumping Commissioner (Commissioner) decided not to reject the application and initiated an investigation into the alleged dumping of wind towers exported from China and Korea.

Public notification of initiation of the investigation was published in *The Australian* on 28 August 2013.

Anti-Dumping Notice No. 2013/68 provides further details of the investigations and is available at www.adcommission.gov.au.

1.2 Previous anti-dumping investigations and measures

1.2.1 Previous investigations

There have been no previous investigations of wind towers in Australia.

1.2.2 Anti-dumping measures

There are no current anti-dumping or countervailing measures on wind towers exported to Australia from China or Korea.

1.3 Events after date of visit

On 6 December 2013, the Commissioner gave notice that a preliminary affirmative determination (PAD) has been made, being satisfied that there appears to be sufficient grounds for the publication of dumping duty notices in respect of wind towers exported to Australia from China and Korea.

In reaching the preliminary decision, the Commissioner was satisfied that there appear to be sufficient grounds to demonstrate that dumped goods appear to have caused material injury to the Australian industry producing like goods.

The decision to make a PAD was based on the information available to the Commissioner at the time of making that decision. The preliminary findings of the PAD, including dumping margins may change between the time of the publication of the PAD and the publication of the statements of essential facts (SEF).

At the time of making the PAD, the Commissioner further determined that Australian Customs and Border Protection Services (ACBPS) will require and take securities under section 42 of the *Customs Act 1901* (the Act) in respect of interim dumping duty that may become payable in respect of wind towers imported from China and Korea, being satisfied that it is necessary to require and take securities in order to prevent material injury occurring to the Australian industry while the investigation continues.

Dumping securities will be taken in respect of any interim dumping duty that may become payable in respect of the goods entered for home consumption on or after 6 December 2013.

Further details of the PAD are contained in ACDN 2013/95 and the Commission's PAD report, PAD 221. Both can be found on the electronic public record for the investigation.

1.4 Background to meeting

Following the initiation of the investigation, a search of ACBPS' import database indicated that Shanghai Taisheng Wind Power Equipment Co., Ltd (TSP) exported wind towers from China to Australia from 1 January 2012 to 30 June 2013 (the investigation period).

The Commission notified TSP of the initiation of the investigation, sought its cooperation with the investigation, and provided an exporter questionnaire in respect of wind towers for TSP to complete.

TSP completed the exporter questionnaire, and the non-confidential version of this questionnaire response is available on the Public Record.

1.5 Purpose of visit

The purpose of the visit was to verify information contained in the exporter questionnaire response submitted by TSP.

TSP's exporter questionnaire response consisted of background to its activities, details of exports to Australia, details of exports to other countries, cost to make and sell information, details of domestic sales and information on adjustments to domestic selling prices. The exporter questionnaire response was supported by multiple attachments.

Following the visit, verified information has been used to make preliminary assessments of:

- who is the exporter and who is the importer;
- export prices and normal values for wind towers manufactured by TSP; and
- dumping margins.

1.6 Visit

COMPANY	Shanghai Taisheng Wind Power Equipment Co., Ltd (TSP)
ADDRESS	No.1988 East Weiqing Road, Jinshan District, Shanghai
DATES	27 – 29 November 2013, and 2 December 2013

Attendees:

TSP	
Mr Liu Zhicheng **Mr Zou Tao** **Mr Lu Hui** **Mr Chen Fei** **Mr Zhang Jiang Wen**	Chairman Chief Financial Officer Quality Control Department Vice Manager Sales Manager
Dacheng Law Offices	
Mr. Chen Hong **Mr Zhao Genpo (Paul)** **Mr. Liang Bin**	CPA, Attorney at law Financial Accountant Attorney at law

Anti-Dumping Commission	
Ms Andrea Stone	Manager, Operations 3
Ms. Antoinette Failla	A/g Supervisor, Anti-Circumvention Unit

At the visit we provided a summary of the investigation process and timeframes as follows.

- The investigation period for the investigation is 1 January 2012 to 30 June 2013.

- The Commission will examine the Australian market from 1 January 2008 for the purpose of analysing the condition of the Australian industry.

- A PAD for the investigation is able to made any time after 27 October 2013. A PAD will only be made if the Commission becomes satisfied, based on the information available, that there are sufficient grounds to make a PAD. If such a PAD is made, it will be placed on the public record. If a PAD is made, the Commissioner may also decide to require and take securities on goods entered of home consumption on or after a nominated date.

- The SEF for the investigation is due to be placed on the public record by 16 December 2013, or such later date as the Minister for Industry (Minister) allows under s.269ZHI of the Act. In November 2013, the Minister granted an extension to the publication date for the statement of essential facts (SEF). The revised due date for the SEF is 4 February 2014.

- The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Minister and will invite interested parties to respond, within 20 days, to the issues raised therein (submissions received in response to the SEF will be considered by the Commission when compiling the final report and recommendations to the Minister).

- The final report to the Minister is due no later than 30 January 2014, unless an extension to that date is approved by the Minister. Due to the extension to the SEF the Commission's report to the Minister is now due no later than 21 March 2014.

- The Minister will have 30 days from the date of receipt of the final report to make a final decision.

- Certain interested parties have the right to seek a review to the Anti-Dumping Review Panel in relation to the Minister's final decision.

TSP was co-operative during the verification, and supplied various requested documentation during the visit.

2 THE GOODS AND LIKE GOODS

2.1 The goods the subject of the applications (the goods)

The goods the subject of the investigation, (the goods), are wind towers.

The goods are described as follows:

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

The application details that 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. where 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 or external components (e.g., flooring/decking, ladders, lifts, electrical junction boxes, electrical cabling, conduit, cable harness for nacelle generator, interior lighting, tool and storage lockers) attached to the wind tower section.

Goods specifically excluded from the scope are nacelles and rotor blades, regardless of whether they are attached to the wind tower. Also excluded are any internal or external components which are not attached to the wind towers or sections thereof.

2.1.1 Product standards

The applications state that the Australian and New Zealand Standard Industrial Classification (ANZSIC) code applicable to the construction (including on-site assembly) of complete steel towers are included in “Class 3109 Other Heavy and Civil Engineering Construction”.

2.1.2 Tariff classifications

The goods are currently classified to the tariff subheading 7308.20.00-02 in Schedule 3 to the Customs Tariff Act 1995. This applies to complete towers, unassembled or assembled and applies to a basic tower that includes doors, ladders, landings and embed or tower foundation.

Steel tower sections, including sections with doors etc, are classified to the tariff subheading 7308.90.00-49, assembled or disassembled, providing there aren’t enough in a shipment to be judged to be a complete tower.

Combinations of towers and tower sections may vary on a case by case basis for assessment of tariff classification. Classification may vary when there is more of one thing than another, for example a tower section and lift or a tower section with lift, electrical junction boxes and other equipment.

An assembled complete wind powered generator is a composite machine consisting of two or more machines fitted together to form a whole; wind engine, generator, gearbox, yaw controls etc. fitted in a steel tower and nacelle, classification is to the tariff subheading 8502.31.10-31.

There are no tariff concession orders (TCOs) for towers under 7308. There are some TCOs under 8502 for wind turbine equipment, but none that specifically includes towers.

A customs duty rate of 4% applies to wind towers imported from China and Korea 5% under tariff headings 7308.

2.1.3 Exports to Australia

During the period of investigation, TSP manufactured and sold wind towers that were exported to Australia. These sales were made directly to [redacted] which then on-sold the towers to [redacted] Goldwind Australia (GWA) [confidential text redacted: supply chain details].

In its response to the exporter questionnaire, TSP submitted costs and sales data for the goods exported to Australia (see later Chapters of this report).

In making these sales to [redacted], TSP was aware that the goods were destined for export to Australia, being destined for the Gullen Range Wind Farm (GRWF) project, which was managed by GWA.

Prior to manufacture and export, TSP entered into a contract with [redacted] to supply a total of 56 towers and corresponding embeds to [redacted] over the duration of the project. The contract between [redacted] and TSP (numbered [redacted]) was entered into March 2012. TSP provided a translated copy of this contract (**Confidential Attachment GEN 1**).

These towers were built to the specifications provided by [redacted], and were all the same model/type of tower (specification 'GW109-2500-3Sec', were 80m in height and built to support 2.5MW wind turbines). Each tower included welded and bolted accessories, stairs, internal ladders, doors and platforms. Each tower was painted internally and externally.

TSP provided a copy of the specification blueprints for these towers in its response to the exporter questionnaire (attached as **Confidential Attachment GEN 2**). These specifications were and remain the intellectual property of the Goldwind Group.

TSP exported:

- [redacted] towers to Australia during the investigation period, and all 56 embeds; and
- the remaining [redacted] towers during the period July – September 2013.

TSP did not make any other sales of wind towers to Australia during the investigation period.

2.2 Like goods

2.2.1 TSP's domestic sales

On the domestic market, TSP sold [redacted] wind towers of [redacted] different models during the investigation period.

As with the export sales to [redacted], these domestic towers are made to different specifications, depending on the needs of the customer and the project they are made for. TSP's domestic towers were of varying heights (between 30 and 90m), and made to support various MW turbines, some of which were below 1.00 MW.

Although they vary significantly in physical characteristics depending on the specifications they are made to, TSP's domestic towers are:

- functionally like to exported towers – both being used for the same end-use of supporting wind turbines for power generation purposes; and
- manufactured using the same manufacturing process as exported towers, using the same core raw materials (predominantly steel plate).

In addition, should the specifications call for it, TSP would be able to manufacture and sell (to the Goldwind Group) identical [redacted] towers on its domestic market.

In its response to the exporter questionnaire, TSP identified that all sales of wind towers made on the domestic market are considered to be like goods to the wind towers sold to Australia.

2.2.2 Like goods – preliminary assessment

We note that the details of the description of the goods states that the towers must be in excess of 50m tall, and support a turbine of at least 1.00MW. As mentioned above, TSP manufactured and sold towers as short as 30m, and towers that support a turbine of less than 1.00MW.

We do not consider these to be like goods and have excluded them from our analysis.

Despite their physical differences, we consider that the remaining wind towers produced by TSP for domestic sales have characteristics closely resembling those of the goods under consideration and are therefore "like goods" in accordance with subsection 269T(1).

3 COMPANY INFORMATION

3.1 Company background

Shanghai Taisheng Electricity Machinery Co., Ltd was established in 2001 and was renamed Shangai Taisheng Wind Power Equipment Co., Ltd (TSP) in 2009.

TSP is a specialised producer of wind towers, in addition, it also manufacturers some steel structures, wind generator equipment and spare parts, which are ancillary to the installation and operation of wind towers.

TSP is a company limited by shares. On 19 October 2010, the shares of TSP started to be traded on the Shenzhen Stock Exchange.

In its response to the exporter questionnaire, TSP provided a list of its major shareholders and a list of its subsidiary companies (see Section 3.5 for further discussion of subsidiary companies).

TSP advised that there are eight wind tower production lines at its Shanghai factory, and has an annual production capacity of approximately [redacted] wind towers (based on the production of 1.5MW towers between 60 – 70 metres, noting that wind towers range in size and complexity).

TSP provided us with a company profile brochure, which forms **Attachment GEN 3**.

3.2 Accounting

TSP's financial year is the calendar year, 1 January to 31 December.

TSP explained that:

- its accounts operate one company-wide profit centre, and various cost centres;
- in manufacturing wind towers, a project code is allocated to each project (which may encompass many towers or a single tower) and; TSP uses an in-house accounting system called [redacted] mainly for financial reporting and bookkeeping, and all sales invoices are generated in a value-added tax (VAT) compliant system.

In its response to the exporter questionnaire, TSP provided translated copies of its financial year 2011 and 2012 financial reports, including audited income statements. These accounts included separate reporting for TSP itself, as well as the consolidated group of companies (including all subsidiaries). These form **Confidential Attachment GEN 4**.

We observed the auditor's opinion in these 2012 financial year audited accounts that:

…the financial statements present fairly, in all material respects, the financial position of Taisheng Wind Tower as of December 31, 2011, and of its financial performance and its cash flows for the year 2011 in accordance with the Accounting Standards for Business Enterprises and Accounting Systems for Business Enterprises.

3.3 Product range

During the investigation period, TSP produced and sold, domestically and to numerous export countries, a number of steel wind towers varying in size and height, and designed to support varying mega-watt turbines at various wind farm projects. Each tower is manufactured to the purchaser's specifications on a project by project basis.

In addition to sales of its own production (i.e. towers produced 'in house'), TSP also sells wind towers that are manufactured by various related parties that are themselves wind tower producers and seller on the domestic market (see Section 3.5 for further discussion).

TSP advised that it also produces and/or sells small amounts of other steel structures, wind generator equipment, and spare parts. These products are all ancillary products to wind towers.

TSP also generates sales revenue through sales of:

- scrap metal created as a by-product to its main operations;
- surplus gas; and
- surplus paint supplies.

3.4 Production process

TSP explained its production process for wind towers manufactured in-house (i.e. by TSP itself at the Shanghai factory) to be as follows.

1. Steel plate is received at TSP's factory premises. This is purchased from domestic manufacturers that are not related to TSP.
2. A small off-cut of the plate is taken and sent to an external source for quality testing.
3. The steel plate is cut to the specification required for the tower, and the edges bevelled in preparation for welding.
4. The cut steel plate is then cold-rolled multiple times into cylindrical steel cans.
5. Longitudinal tack welding and linear misalignment inspection is performed to ensure the welding is precise before permanent longitudinal welding is completed.

6. The can is then put through a second rolling process which ensures that the can is round and a roundness inspection is performed.
7. Non Destructive Testing (NDT) of the longitudinal welding is carried out and all weld seams are inspected.
8. Sequentially welded cans are tack welded together until there is enough to make a tower section.
9. A linear misalignment inspection is performed of the tack welds, and if the cans are precise and meet the specifications, permanent circular welding is completed.
10. Flanges (purchased from a Chinese supplier) are welded to the top and bottom of the tower sections as per the specifications provided by the customer. Once completed, NDT is completed specifically to inspect the circular welds.
11. Internal components such as wall brackets and bosses are fitted to the inside of the walls of the tower section so that the internal ladders, cable trays etc. can be fitted at a later stage.
12. A flange, flatness and dimension inspection is also performed at this point to ensure that the flanges are flat.
13. The tower section progresses to surface treatment.
    - Sand blasting is performed in order to clean and prepare the tower section for painting.
    - The flanges are galvanised using sprayed zinc.
    - Once dried, the tower section is painted. Generally, the internal walls of each tower are painted with 2 coats and the external walls are painted with 3 coats, though customer specifications can vary this.

    TSP advised that, although the surface treatment of sandblasting, galvanising and painting is performed on site, the labour is outsourced to an external party, primarily for health and safety reasons.
14. The internal mountings are then installed, where all the internal components such as platforms, ladders and fall arrest devices are fitted.
15. The towers are then packaged depending on the requirements of the project, which can include PVC covers, end tarpaulins, slings, H-frames and hooks for transportation.
16. A final product inspection is then performed by TSP.

TSP also provided a flow chart depicting its wind tower manufacturing process, this forms **Confidential Attachment GEN 5**.

TSP explained that, as a result of the cutting and bevelling of steel plate, steel scrap is generated as part of its production process. The majority of this scrap is used by TSP to manufacturer small parts, including H-frames, bars and ladders utilised in the packaging of the wind towers for transport, while some of the scrap is sold on the market.

3.5 Related parties

3.5.1 Legal relationship

In its response to the exporter questionnaire, TSP provided a legal structure chart, which showed all parties legally related to TSP (**Confidential Attachment GEN 6**). This showed that TSP is the parent company of several related entities.

During the verification visit, TSP clarified the roles of each of the affiliated companies as follows:

(a) Shanghai Taisheng (Dongtai) Power Engineering Machinery Co., Ltd – established to manufacture wind towers for the wind power markets in the Shangdong and Jiangsu provinces.

[Confidential text redacted: affiliated parties]

3.5.2 Outsourced manufacturing

TSP explained that, as a matter of course (and during the investigation period), it outsources the manufacturing of wind towers to various related companies for some of its domestic sales. TSP remains the contracting and selling party for these sales, and that the related entity's role is as the manufacturer and despatcher of these towers.

This outsourcing is only applicable to certain domestic sales, with the remaining domestic sales and all exports in the investigation period being manufactured by TSP itself (which is located near ports in Shanghai).

TSP noted that it has related entities strategically placed in various locations in China (see above) that allow the TSP group to more easily service certain regions, and explained that this outsourcing is undertaken to allow for the physical manufacture of wind towers in locations in China that are closer to the wind farm they are destined

for, to reduce transportation expenses (noting the size and nature of the towers results in significant inland transportation fees).

TSP explained that its related parties charge TSP for this service, which TSP refers to as a 'processing fee'.

TSP explained that this outsourced manufacturing can take multiple forms, depending on the requirements of the project, market circumstances, and the situation of the relevant related party that will undertake the manufacturing task. Specifically, the affiliated company may:

a) wholly manufacture the wind towers, including the purchase of all raw materials; or
b) partly manufacture the wind towers, however TSP will purchase some or all of the key raw materials (e.g. in some cases, TSP may only provide steel plate but not paint).

In each case, the 'processing fee' charged to TSP will reflect the role played by the related party (e.g. if raw materials are purchased by TSP, the processing fee will mainly consist of the conversion service, whereas if raw materials are provided by the related company, the processing fee will effectively be for the full purchase of a tower).

TSP submitted that the processing fees charged are at arm's length and not affected by the relationship between the two entities.

We discussed with TSP the possibility of verifying that the processing fees charged between the related parties and TSP are reasonably competitive market prices. The Commission is able to determine this is by comparing related party transactions with similar transactions with unrelated parties. However, in this case, TSP does not engage in this practice with unrelated parties, and, in any case, the significant physical differences between towers produced for each project (made to differing specifications for different wind farms) would make any such comparison imprecise. We therefore consider that we cannot be satisfied that the processing fee between TSP and related parties is reasonably reflective of a competitive market price.

Consequently, we have isolated data relating to TSP's sale of wind towers manufactured by related parties and excluded these towers from our analysis. TSP was consulted on this point during the verification and agreed with this approach.

Purchases from related companies are further discussed in Chapter 5 of this report, where the verification of the processing fee is discussed.

4 EXPORT SALES TO AUSTRALIA

4.1 General

In its response to the exporter questionnaire, TSP provided an *Australian Sales* spreadsheet, listing sales data of all exports of wind towers to Australia for the GRWF project, including those sales invoiced outside the investigation period.

This data included details as to the:

- customer;
- type of tower (specification);
- details as to whether the sale was towers or embeds;
- contract number;
- invoiced price in [redacted];
- exchange rate and price in [redacted];
- mass (number of towers or embeds);
- inland freight; and
- handling charges.

This *Australian Sales* spreadsheet forms **Confidential Attachment EXP 1**.

4.1.1 Volumes

As discussed above, TSP exported [redacted] wind towers and [redacted] embeds to Australia during the investigation period. The remaining 25 towers were exported after the investigation period.

4.1.2 Sales process

During the verification, TSP detailed the process of selling wind towers to [redacted] for the GRWF project. This process is described below.

- TSP received an invitation directly from [redacted] to submit a tender for the GRWF project. Within this notification, [redacted] supplied relevant specifications requirements, including blueprints, to satisfy the requirements of the project.

  Note: TSP advised that, in some cases, it does not receive direct notification of a call for tenders, but responds to public advertisements to submit tenders.

- TSP submitted the tender documents to [redacted], along with its quotation.

Note: TSP advised that there may be some price negotiations between TSP and the customer at this time.

- [redacted] accepted TSP's tender and price, and a sales contract was prepared.
- TSP underwent internal contract review, and signed the contract along with [redacted].
- TSP issued a "Production Task Notice" to the relevant internal departments in charge of the production of the wind towers for the GRWF project.
- Production was scheduled and materials purchased.
- TSP manufactured and packaged the goods for [redacted] in accordance with the specifications.
- TSP sent the towers to the Jiangsu or Shanghai port for exportation to Australia.
- TSP prepares a commercial invoice when the goods have been delivered to the port.

4.2 Export pricing

TSP advised that it sets a price to bid for each project it wishes to tender on taking into account numbers factors, including:

- costs of production, including raw material and conversion costs;
- market characteristics; and
- the requirements of the specifications.

We queried how TSP managed the risk of the price of steel plate (the major raw material) fluctuating between the time of tendering and the time of purchasing this steel for production (for example, does TSP purchase the requirements for the project after winning the contract and keep these in inventory, etc.)

TSP explained that it does not hold large inventories of steel plate and orders the plate periodically to feed in to its production process. Consequently, TSP bears the risk of fluctuations in the plate price.

TSP explained that its procurement department will monitor trends in steel plate prices, and try to place orders at the most advantageous time possible.

The goods sold to [redacted] were invoiced in [redacted], as provided for in the sales contract.

TSP advised that some export sales (not to Australia) are made in [redacted] as well.

4.3 Level of trade

TSP's Australian sales were to [redacted], for on-sale to GWA, a contracted project manager for the GRWF project.

4.4 Delivery and payment terms

The goods sold by TSP to [redacted] were at free-alongside-ship (FAS) terms. This is provided for in the sales contract with [redacted].

Payment for the GRWF project by [redacted] to TSP was specified in the sales contract to be as follows:

- [redacted]

[Confidential text redacted: payment terms]

Payment was made via telegraphic transfer.

4.5 Date of exchange

In the export sales worksheet, TSP listed the [redacted] price of the invoiced towers, and converted the [redacted] sale amount into [redacted] using an identified exchange rate.

TSP explained that the exchange rate used is the official rate issued by the People's Bank of China (the state reserve bank) on the date of invoice. TSP explained that this was the most appropriate rate of exchange to use, as it recognises revenue for sales on the date of invoice, which was reflected in the company's audited accounts. This was confirmed during our verification to TSP's audited accounts (below).

We were able to verify the listed exchange rate with TSP to historical rates available on the People's Bank of China website.

TSP explained that it maintains a [redacted] and [redacted] accounts, which foreign sales revenue is received into. TSP explained that these accounts are cleared by TSP on a regular basis into an [redacted] account, and any loss/gain incurred is recorded as a finance expense.

TSP provided a sub-ledger of its foreign currency accounts, demonstrating regular payments into the accounts, as well as clearances of the accounts. This forms **Confidential Attachment EXP 2**.

4.6 Verification of sales to audited financial statements – export and domestic sales

Note: for the purposes of this report, the 'upwards' verification of export and domestic sales are discussed collectively in this section. Separate discussion of domestic sales generally and the verification of those sales to source documents is found in Chapter 6 of this report.

As discussed above, TSP submitted an *Australian Sales* listing, for all sales of wind towers and embeds made for the GRWF project. TSP also submitted a *Domestic Sales* listing, listing all sales of wind towers and embeds in China during the investigation period.

To determine the completeness and relevance of both listings, we verified the information provided in the response to the exporter questionnaire upwards through management reports to TSP's audited financial statements. This process is described below.

TSP provided a *Sales Reconciliation* package to assist with the sales verification, which included a 'sales reconciliation diagram' that demonstrated the upwards sales reconciliation. This package forms **Confidential Attachment EXP 3**.

The sales reconciliation diagram listed TSP's total company revenue separately for:

- financial year 2012; and
- January – June 2012.

Together, these periods encompass the full investigation period.

TSP provided copies of its management account income statements (from [redacted]) for these periods, which supported these figures.

We observed that the management account income statement for 2012 reconciled exactly to the TSP income statement in the provided audited financial accounts (Confidential Attachment GEN 2). This then fed into the consolidated figures in those audited accounts.

The sales reconciliation then broke the total revenue figures into:

- income from main operations (sales of wind towers and ancillary items); and
- income from other operations.

TSP provided copies of its general ledger for main operations and other operations for 2012 and January – June 2013 to support this breakdown (included in Confidential Attachment SALES 3).

We observed from the general ledger that the income for other operations involved sales of:

- scrap metal;
- gas (purchased by TSP for its operations but occasionally sold when there is a surplus);
- paint (purchased in excess like gas); and
- other sales (less than 0.5% of other income).

We noted from the general ledger that income from main operations was for sales of:

- wind towers;
- embeds; and
- tools (sometimes sold alongside wind towers).

The sales reconciliation diagram then:

1. summed the main operations figure for 2012 and January – June 2013 to arrive at a period of investigation revenue figure;
2. split this investigation period figure into:
    - domestic revenue; and
    - export revenue
3. split domestic and export main operations revenue into revenue for:
    - products under investigation (wind towers and embeds); and
    - non-product under investigation (tools).

TSP demonstrated how these splits can be observed in the main operations general ledgers, which identify the sales revenue by market as well as product.

We observed that the sales reconciliation diagram correctly reconciled to the general ledgers.

We were then able to directly reconcile the domestic sales listing to the figure for revenue for wind towers and embeds sold during the investigation period.

The sales reconciliation sheet then split export wind towers sales into:

- Australian sales (i.e. to GRWF); and
- third country sales.

The diagram further included a figure for Australian sales outside the period of investigation (i.e. the remaining GRWF towers).

We reconciled the third country sales figure to aggregate sales data by country for the investigation period, provided by TSP in its response to the exporter questionnaire (**Confidential Attachment SALES 4**).

We then reconciled the Australian sales figure for the investigation to the Australian sales spreadsheet (Confidential Attachment SALES 1) to the sales reconciliation spreadsheet:

- filtered on sales invoiced during the investigation period to the investigation period figure; and
- filtered on sales invoiced after the investigation period to the post-investigation period figure.

We also note that the Australian sales listing has been verified to invoices and includes the sales data for the entire GRWF contract (see Section 4.7 below).

4.6.1 Conclusion

Having been able to reconcile TSP's wind towers *Australian Sales* and *Domestic Sales* spreadsheets to TSP's audited financial statements, we are satisfied that the sales listings included in the exporter questionnaire response are complete, contain all relevant sales and do not contain any irrelevant sales.

4.7 Verification of export sales to source documents

In tis response to the exporter questionnaire, TSP provided source documentation to verify the Australian sales listed in the submitted sales listing, in an *'Australian Sales Package'* – i.e. the entire GRWF project.

This included:

- the sales contract (partially translated – a full translation was provide at the verification – see Confidential Attachment GEN 6);
- a copy of 'modification contract';
- commercial invoices (to [redacted]) for all invoices listed;
- all applicable bills of lading;
- a copy of TSP's inland freight contract;

- inland freight invoices; and
- proof of payment for the inland freight invoices.

These documents form **Confidential Attachment EXP 5**.

TSP also provided a selection of proof of payment documents (inward remittance advices and bank pay-in slips) for invoices generated during the investigation period for the GRWF project.

We examined the modification contract, which TSP explained increased the overall contract price of the GRWF project due to a variance in specifications made post-contract by [redacted] (altering the safety barrier for the internal lift structure, change of export port, and modifications to internal platforms). This modification contract set the final price for the contract between [redacted] and TSP.

We were able to match the sales information in the source documents to the data contained in the detailed *Australian Sales* spread sheet for all invoices, including sales volumes and values. This included invoice volume, value, invoiced goods (embeds or towers), invoice date and number, shipping terms, customer details, contract number and product specifications.

We observed that the total invoiced amount of all invoices (in [redacted]) matched the final price listed in the modification contract. The invoices were also for a total of [redacted] towers and embeds, as per the sales contract, and listed the specification of the towers that matched those required by the sales contract.

We observed that the remittance advices and bank slips provided proof of payment for the contract, in line with the payment schedule provided for in the contract. However, we observed that TSP had not provided proof of payment documents for the entire project. The remaining remittance advices were supplied by TSP at the verification (**Confidential Attachment EXP 6**), and demonstrated that [redacted] had paid for the contract ion full, in accordance with the contract schedule.

4.7.1 Handling fees

TSP also included values for 'handling fees' line-by-line in the Australian sales spreadsheet.

TSP explained this comprised of:

- customs fees; and
- port handling fees.

TSP supplied a *Handling costs* workbook (**Confidential Attachment EXP 7**), which:

- listed all of these costs incurred by TSP for the period January 2012 – September 2013 (as the last Australian wind towers was invoiced and exported in September 2013);

- arrived at a unit price by dividing this by total export revenue for that period; and

- calculated a total handling fees price per Australian invoice by multiplying the unit amount by the invoice revenue.

TSP explained that it considers that these charges should be evenly apportioned across all exports, as they apply equally to all exported wind towers.

TSP explained that it considered its apportionment by revenue reasonable as the difference between the price of towers and embeds would be reflected better in the price rather than volume (which is recorded as '1 tower' or '1 embed' rather than tonnes). TSP explained that it considered invoice value to be reasonable, as this would necessarily reflect the difference in sizes between the towers and embeds (i.e. towers significantly higher in price).

We collected copies of the general ledger of the customs and port fees for the applicable period (**Confidential Attachment EXP 8**) across January 2012 – September 2013. We also collected a sub-ledger for January – September 2013 port fees, along with selected invoices, proof of payment and TSP's internal accounting slips for these fees **Confidential Attachment EXP 9**).

We considered the reasonableness of TSP's allocation across sales revenue, and considered it would be more reasonable to apportion across volumes if possible.

Using third country sales data, we instead calculated a more accurate unit handling cost per tower, using the best available information of sales volume, for the purposes of our dumping calculation. These calculations form **Confidential Attachment EXP 10**.

Refer to Chapter 8 for further discussion on an adjustment for export handling fees.

4.7.2 Inland transport

As discussed in Section 4.4, the GRWF towers were sold on an FAS basis, and therefore included the cost of inland transport to the Chinese port.

In its Australian sales listing, TSP identified:

- the total amount of inland transport for the GRWF project; and

- apportioned this across invoices based on sales value.

As discussed above, TSP provided a copy of its inland transport contract for the GRWF project, as well as invoices and proof of payment documents for these invoices (in the form of electronic transfer vouchers for TSP's bank).

We observed that the total contract amount reconciled to the total amount of inland freight apportioned by TSP to the GRWF project sales in the Australian sales listing.

We also observed from the contract that it was for 56 towers and embeds, and nominated the GRWF contact by name.

We observed that the invoices provided for freight reconciled to the contract total, and the proof of payment documents demonstrated full payment by TSP for the inland freight.

As with handling fees, we considered the reasonableness of allocating the freight by invoice value as opposed to volume. For the purposes of our dumping calculations, we have calculated a unit per tower inland transport cost by dividing the total freight contract amount by the number of transported towers ([redacted], including embeds). These calculations form **Confidential Attachment EXP 11**.

Refer to Chapter 8 for further discussion on an adjustment for inland freight.

4.7.3 Packaging

TSP did not include figures for export packaging in the Australian sales listing.

TSP explained that the packaging for wind towers (both domestic and export) is dependent on the requirements of the customer, and can be detailed in the contract or accompanying specifications.

TSP explained that some packaging materials are purchased (e.g. tower end covers), while others are made by TSP internally (e.g. steel H-frames, ladders and steel bars), predominantly from plate steel scrap.

We observed pictorial evidence of these internally-manufactured components, and confirmed that they appear to be manufactured from plate steel as submitted by TSP.

For TSP's costing purposes:

- purchased packaging materials are contained in its 'auxiliary materials' costs, and allocated across all towers based on steel consumption;
- plate steel scrap is generated in the production process and is not offset in the cost of towers; and
- all overheads, including those incurred in manufacturing H frames and ladders, etc. are evenly allocated across all towers.

See Chapter 5 for further discussion of the verification of these costs categories and the allocation methods used for each.

During the verification, TSP explained that the wind towers exported to Australia were packaged with the key packaging elements of:

- PVC end covers (or tarpaulins) at each end of the tower section;

- steel H-frames, which included ladders, to prevent movement and allow stacking of the towers on the ship; and

- a single steel bar/brace across the end of the tower.

With this knowledge of the applicable packaging used, TSP explained that it was able to calculate a per unit packaging material cost per tower for the GRWF project.

In the contract with [redacted] for the GRWF, it was specified that packaging was to be done in accordance with the specifications, an attachment to the contract. This attachment was provided by TSP at the verification **(Confidential Attachment EXP 12)**.

TSP provided a *Packing cost* document package (**Confidential Attachment EXP 13**). In this package, TSP provided an internal packaging specifications sheet for the project, demonstrating that each tower required end covers, an H frame, ladders and bracing bars, and the kg weight for each component of the steel elements.

TSP used this steel weight, and multiplied it by its weighted average unit price to purchase steel plate during the investigation period (which we have verified – see Chapter 5) to arrive at a cost for these materials.

TSP further provided its purchase contract for the end tarpaulins for the GRWF project, which it used to calculate a per tower cost for tarpaulins. This was verified to the purchase contract for these tarpaulins (in the *Packing cost* package).

TSP then summed the steel component and tarpaulins together to arrive at a unit packaging cost per tower.

We consider this a reasonable approach to calculating packaging costs.

Refer to Chapter 8 for further discussion on an adjustment for export packaging.

4.7.4 Export credit

In the Australian sale spreadsheet, TSP listed all Australian sales as being ‘paid in advance’. After considering the contract terms (some payment upfront, others after delivery to the port, others after delivery to the wind farm), we considered that this was not in fact accurate.

We discussed the credit terms afforded for the GRWF project with TSP, and determined that, considering that:

[redacted]

[redacted] [Confidential text redacted: credit terms]

We considered it reasonable to determine that the credit terms for the invoice to be [redacted] of the project value, noting that [redacted] [confidential text redacted: credit terms and reasonable terms determined].

To determine the interest rate to be used, TSP explained that it does not publish short term borrowing rates in its audited accounts. We confirmed this by examining those accounts for 2012.

Instead, TSP submitted that we use the short term borrowing rate for 2013 (the year in which most of the towers were invoiced) published by the People's Bank of China as an indicative rate.

TSP demonstrated what this rate was by showing us the People's Bank of China's published rates online, a printout of which is at **Confidential Attachment EXP 14**. We considered this rate (5.6%) to be reasonable.

We calculated the cost of credit in the Australian sales spreadsheet with reference to this interest rate and the [redacted] credit terms.

Refer to Chapter 8 for further discussion on an adjustment for export credit.

4.7.5 Conclusion

Having been able to reconcile TSP's Australian sales spread sheets down to source documents, we are satisfied that the spread sheets are accurate.

We consider that TSP's calculations of packaging costs are reasonable and accurate, and have amended TSP's calculations of handling and inland freight fees to more accurately reflect these charges associated with the export of wind towers for the GRWF project.

We have also calculated reasonable credit costs with reference to published interest rates and the contracted payment terms, which were shown to have been met by [redacted].

4.8 The exporter

We consider TSP to be the exporter of wind towers to Australia from China.

TSP:

- Is the contracting party in the sales contract for the goods;

- is the manufacturer of the goods, having made them to the specifications required by the customer ([redacted]);
- is listed as the supplier on the bill of lading;
- invoiced the customer for the goods;
- arranged and payid the inland freight and handling fees;
- is the principal in the transaction located in the country of export from where the goods were shipped that gave up responsibility by knowingly placing the goods in the hands of a freight forwarder for delivery to Australia
- sent the goods for export to Australia and was aware of the identity of the Australian end customer of the goods; and
- received payment for the goods from its customer.

4.9 The importer

Having reviewed applicable information gathered at the TSP verification, as well as the findings and recommendations contained in the GWA visit report, we consider that for TSP's export sales of wind towers, GWA should be considered the importer of the goods.

The GWA report observes that:

- GWA is listed as the importer on the Customs entry;
- GWA is listed as the consignee on the Bill of Lading;
- GWA is invoiced by TSP's customer, [redacted], for the goods;
- GWA and [redacted] enter into a contract for purchase of the goods, which lists GWA as the buyer and [redacted] as the supplier of [redacted] imported GW100/2500 towers manufactured by TSP.

Consequently, we consider GWA to be the beneficial owner of the goods at the time of importation, and therefore the importer.

We noted that GWA's [redacted]:-

- acts as an intermediary and facilitates the contact and price negotiations directly with TSP; and
- is named on the commercial invoice from TSP as the customer.

4.10 Arms length

In respect of TSP's sales to [redacted], we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or

- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or

- the buyer, will, subsequent to the purchase or sale, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

We consider the export sales of wind tower sections by TSP to [redacted] were arm's length transactions.

4.11 Export price – preliminary assessment

For all sales we are satisfied that:

- the goods have been exported to Australia otherwise than by the importer;

- the purchases of the goods were arms length transactions; but

- the good were not purchased by the importer from the exporter.

Consequently, we consider that export price cannot be established under s.269TAB(1)(a) or (b) of the Act.

We consider that the export price for sales of wind towers to Australia by TSP should instead be determined under s. 269TAB(1)(c) as the invoiced price between TSP and [redacted], having regard to all circumstances of the transaction. We calculated a weighted average unit export price for TSP's sales of wind towers over the investigation period. This involved calculating:

- a unit price for the invoiced embeds ([redacted] in total); and

- a unit price for the invoiced wind towers ([redacted] in total)

summing these to arrive at a weighted average export price for a complete tower/embed set.

Details of the export price calculations are at **Confidential Appendix 1**.

5 COSTS TO MAKE & SELL

5.1 General

5.1.1 Data provided

In its response to the exporter questionnaire, TSP provided cost to make and sell (CTMS) calculations for:

- all towers that were invoiced to Australia for the entire Australian project, some of which were invoiced outside the investigation period; and
- all towers invoiced during the investigation period sold to multiple domestic customers (some complete projects and other partial projects).

These calculations form **Confidential Attachment CTMS 1**.

This data was provided project-by-project, identified by customer and project number, and was divided into the following cost categories/items.

1) Cost to manufacture
    a. Variable manufacturing costs
        i. Raw material – steel plate towers
        ii. Raw material – flanges towers
        iii. Raw material – steel plate embeds
        iv. Raw material – flanges embeds
        v. Raw material – auxiliary materials
        vi. Raw material – paint
        vii. Direct labour
        viii. Other costs
    b. Fixed manufacturing costs
        i. Overheads
        ii. Depreciation
2) Cost to sell
    a. Selling costs
    b. Administration costs

c. Financial expenses

Using the total costs incurred for each project during the relevant period[1] the CTMS workings arrived at a unit (per tower) cost by dividing the aggregate total CTMS by the number of towers the costs applied to.

5.1.2 Costs reported – cost of goods sold

As discussed above, the CTMS data submitted is:

- domestic - the costs of the towers invoiced during the investigation period;
- Australia – total cost of the towers produced and sold to [redacted] for the sole Australian project (56 in total), some of which were invoiced outside the investigation period.

As these costs relate to actual finished towers invoiced, the CTMS represent a cost of goods sold for the sale of finished goods, rather than the total cost of production during the relevant period (which would involve significant production costs for other towers not yet invoiced due to the nature and length of the production process of wind towers).

5.1.3 Clarification of cost categories

The majority of TSP's cost categories/items are self-explanatory, though it is considered that 'auxiliary materials' and 'other' costs warrant further explanation.

Raw material - auxiliary materials

The 'auxiliary materials' variable manufacturing costs category is all materials other than steel plate, other steel (small amounts), flanges and paint, used in the manufacture of wind towers. This includes:

- internal ladders, platforms, cable trays and other 'internal' components;
- welding wire; and
- galvanising zinc.

'Other' costs category

a) Towers manufactured by TSP

TSP explained that the 'Other' costs item in its CTMS calculations was the cost of outsourced labour for surface blasting, galvanising and painting (see Section 3.4).

[1] Whole Australian project and only costs for towers invoiced during the investigation period for domestic projects.

TSP explained that is was the actual outsourced labour incurred on each project. We have verified these costs (discussed later in this Chapter).

b) Towers manufactured by other related parties

TSP explained that, for towers manufactured by related parties (see Section 3.5.2 for further discussion), the '*Other*' cost to make item represented either:

- where TSP buys fully completed towers and does not supply any materials to the party for use in the processing - TSP's cost of buying a fully completed tower from the related party; or

- where TSP provides some materials to the related party for use in manufacturing the tower, the elements charged for by the related party (which could include some materials, where the related party is purchasing these to include in the tower, or 'processing'/fabrication alone).

We discussed each domestic project reported in the CTMS with TSP, and observed various combinations of this processing relationship, and how this was reflected in the CTMS reported.

For example, we observed:

- multiple projects that only had a 'processing fee' reported (i.e. in the 'Other' cost item), where TSP was purchasing completed towers and not supplying any materials to the related party;

- projects that reported a steel plate raw materials cost, and a processing fee, where TSP supplied steel plate to the related party, and all other materials and processing was performed by the related party; and

- projects that reported various other material costs, where TSP supplied these various inputs and the fabrication and various remaining inputs were supplied by the related party.

5.1.4 Combined reporting of domestic steel plate and flanges

Despite providing separate headings in the CTMS workings for steel plate in towers and embeds, and flanges in towers and embeds, TSP explained that, within its domestic CTMS calculations, the steel plate raw materials for towers and embeds had been reported collectively for both items in the 'Raw material – steel plate towers' cost item, and for flanges in the 'Raw material – flanges towers' cost item. In the domestic calculations, these are combined in the towers lines.

Conversely, for the Australian CTMS, TSP had separated these items into their correct cost headings, as requested by the Exporter Questionnaire.

TSP explained that this was due to the fact that these raw materials are recorded collectively in TSP's accounts, and the company had undertaken a lengthy calculation to express the costs separately for the Australian sale in order to comply

with the format requested by the Commission in the Exporter Questionnaire, but had not performed this for the numerous domestic projects.

We considered this to be reasonable, and immaterial for our purposes, and have verified that the steel plate and flanges costs for domestic embeds are contained within the 'Raw material – steel plate towers' and 'Raw material – flanges towers' items respectively (discussed throughout this Chapter).

5.1.5 Manufacturing costs methodology – actual and allocations

TSP advised that steel raw materials, flanges, paint cost and processing costs are actual amounts incurred in the production of the towers they are attributed to in the CTMS calculations. We verified this with TSP (discussed and verified throughout this Chapter).

Conversely, TSP explained that its method of allocating labour, overheads (including depreciation) and auxiliary materials (other components of towers e.g. platforms, ladders and cable trays) is based on a 'steel volume' allocation, and the company does not record the actual costs of these categories directly involved in manufacturing each tower.

TSP explained that this is based on a ratio-based allocation based, summarised as follows:

$$\left(\frac{\text{Volume of steel booked into production for a specific project during the month}}{\text{Total volume of steel booked into production during the month}}\right) \times \text{Total cost to be allocated (overheads, auxillary or direct labour) incurred in the month}$$

Throughout this report, this allocation method is referred to as TSP's 'steel volume allocation method'.

During the verification, we discussed the accuracy of this allocation method, noting that, among other things, issues can arise where certain towers use thicker (and therefore heavier) steel than other towers, as well when certain towers include different internal components (e.g. some will include electrics, others will not – noting the Australian sale did not include electrical cabling).

We discussed other possible methods of allocation (such as direct labour hours), but TSP explained that it did not keep records of what direct labour is attributable to what project.

TSP explained that the steel volume allocation method is undertaken by TSP during the ordinary course of business, and is acceptable under Chinese accounting principles. TSP explained that, under Chinese accounting principles and practice, it was open to the company to allocate these cost items in a reasonable manner, and

that it considered that this steel-weight based allocation to be the most reasonable method available to it.

The verification of the steel consumption ratio used to apportion the auxiliary, overhead and direct labour costs is discussed in Section 0.

5.2 Verification focus

Noting considerations relevant to establishing a normal value for the sales to [redacted] (see Chapter 8 for further discussion), we decided to focus our detailed verification on the CTMS reported for the Australian project.

We also performed some secondary detailed verification of one domestic project that was wholly manufactured by TSP (materials purchased by TSP as well). This was project code [redacted], a sale of four wind towers to [redacted].

5.3 Value of cost categories

An examination of the costs report for projects wholly manufactured by TSP (including the Australian project) shows that the weighted average break-down of costs items is as follows:

Item	Weighted average percentage of cost to make
Raw material – steel plate	[redacted]
Raw material – flanges	[redacted]
Raw material – auxiliary materials	[redacted]
Raw material – Paint	[redacted]
Direct labour – manufacturing production	[redacted]
Other costs (outsourced labour)	[redacted]
Overheads	[redacted]
Depreciation	[redacted]

5.4 Verification of CTMS volumes

In its CTMS calculations, the total CTMS figure for each project is divided by a total number of towers the costs relate to in order to arrive at a unit CTMS.

As discussed above, the CTMS submitted is in fact a cost of goods sold for the period the costs relate to (the investigation period for domestic costs and the whole project for the Australian costs), as opposed to a costs of production for the period.

Consequently, to arrive at a unit cost for the towers sold during the period, the total cost of goods sold is divided by the number of towers sold (invoiced) during the period the costs relate to.

These sales volumes match those verified in the domestic and Australian sales spreadsheets (see Chapters 4 and 6).

5.5 Verification of costs to manufacture to audited financial statements (completeness and relevance)

We explained to TSP that we sought to reconcile the total production costs (i.e. cost to manufacture/make or CTM) for both Australian and domestic projects in Confidential Attachment CTMS 1 to the company's audited accounts.

As discussed in Section 3.2, TSP provided its audited 2012 financial year audited accounts (in Chinese and translated to English), which included an audited income statement for TSP.

To assist the verification of manufacturing costs to its audited financial income statement, TSP submitted a *Costs Reconciliation* workbook, which included a reconciliation spreadsheet, and supporting calculations spreadsheets. This workbook forms **Confidential Attachment CTMS 2**.

TSP also provided its management account ([redacted]) income statements for the following periods:

- January – December 2012 (TSP financial year); and
- January – June 2013.

Together, these income statements cover the January 2012 – June 2013 investigation period. These statements form **Confidential Attachment CTMS 3**.

We observed that the cost of operations in the [redacted] financial year 2012 income statement reconciled to the corresponding item in the 2012 audited income statement.

As the CTMS submitted by TSP is a cost of goods sold, the reconciliation of the company's CTMS should be performed to this cost of operations figure.

To achieve this reconciliation we undertook the following reconciliation process.

5.5.1 Total company cost of operations to cost of main operations

In the *Cost reconciliation* workbook, the cost of operations for 2012 and January – June 2013 were split into:

- cost of main operations; and

- cost of other operations.

TSP provided copies of its general ledger for 2012 and January – June 2013 to verify this split. These form **Confidential Attachment CTMS 4**.

TSP explained that its 'main operations' for was the manufacture and sale of wind towers and ancillary equipment, while the other operations included sales of scrap, excess gas (where TSP had purchased too much and on-sold the gas), and other ancillary activities.

In the *Costs* reconciliation workbook, the costs of main operations for 2012 and January – June 2013 were summed to arrive at a period of investigation cost of main operations.

5.5.2 Cost of main operations to all project COGS

TSP then provided separate cost of goods sold ledgers by project (i.e. listing the total COGS by project code) for all projects for which sales were made (invoices issued) for:

- the full year 2012; and
- January – June 2013.

TSP also provided a bookkeeping slip that showed a minor adjustment to include a further cost of sales in the total cost of goods sold.

These ledgers and bookkeeping slip form **Confidential Attachment CTMS 5**.

The sum of these ledgers and the bookkeeping slip reconciled to the cost of main operations in the *Cost reconciliation* spreadsheet.

5.5.3 All project COGS to submitted CTMS

Within the project cost of goods sold ledgers (Confidential Attachment CTMS 5), the total cost of sales for each project for which sales were invoiced in the ledger periods were listed.

We observed that the total cost to make for the domestic project [redacted] reported in TSP's submitted domestic CTMS calculations (Confidential Attachment CTMS 1) reconciled exactly to the project cost of goods sold ledger for 2012, as the project was wholly invoiced in 2012.

We went on to match the reported CTMS of all other domestic projects in the submitted CTMS to the cost of goods sold ledgers (in some case, having to sum the 2012 and January-June 2013 figure to arrive at a total project cost).

We observed that the total CTMS reported for the project sold to Australia did not reconcile to the cost of goods sold project ledgers. However, this is due to the fact

that the CTMS reported for the Australian project was invoiced partially within and partially outside the investigation period, and the CTMS calculations submitted for Australia are for the entire project, while the project ledger listing is only the cost of goods sold (invoiced) within the investigation period.

To reconcile the Australian CTMS, TSP provided detailed project sub-ledgers for the Australian project for January 2012 – September 2013 (with the last tower for the Australian project being invoiced in August 2013). These form **Confidential Attachment CTMS 6**.

We observed that the total cost of goods sold in the 2012 Australian project sub-ledger matched the corresponding figure for that project cost in the total project costs ledger (Confidential Attachment CTMS 5).

We observed that the summed January 2012 – September 2013 figure from the detailed project ledgers reconciled with the total reported Australian cost of manufacture in TSP's submitted Australian CTMS calculations.

We discussed the remaining projects in the all projects cost of goods sold ledgers with TSP (i.e. those we had not matched to the domestic or Australian CTMS). It was determined that each remaining project was destined for third countries. Noting that we were provided domestic and Australian CTMS calculations for all sales listed in the domestic and Australian sales listings (which we were able to match by customers details and project code), we accepted this explanation.

5.5.4 Conclusion

Following the above reconciliation, we are satisfied that the costs of manufacture submitted by TSP are a reasonably complete and relevant record of:

- the cost of goods sold for the entire Australian project; and
- the cost of goods sold for those towers invoiced domestically by TSP during the investigation period.

5.6 Verification of costs to manufacture to source documents (accuracy)

5.6.1 Establishing costs to produce during the period

As discussed above, the CTMS submitted by TSP is representative of the cost of goods invoiced during the relevant period the CTMS relates to.

However, to be able to conduct a verification of production costs to source documents, the actual costs of production for the period needed to be identified, to be able to reconcile inputs ledgers (e.g. raw materials) and make selections of source documents.

As noted above, TSP's *Costs Reconciliation* workbook (Confidential Attachment CTMS 5) arrived at a 'cost of main operations' figure (i.e. a cost of goods sold for the investigation period).

Within its workbook, TSP split the cost of main operations figure into it two elements of 'cost of sales' and 'return of tax'. TSP provided ledgers to demonstrate this split (see **Confidential Attachment CTMS 7**).

We queried with TSP why a 'return of tax' would be included in the cost of main operations. TSP provided a 'Notice from the Financial Department' (**Attachment CTMS 8**), with translation, that directed that the non-deductible portion of VAT (i.e. VAT that is not refunded) be recorded as part of the cost of goods sold. TSP clarified that this amount was in fact the non-deductible tax and not a 'tax refund' as named in its *Costs reconciliation* workbook.

TSP then demonstrated how the cost of sales figure was further split to arrive at the cost of production of finished goods in the period, by accounting for opening and closing finished inventory. Following this, TSP arrived at the total cost of production for all goods in the period, by accounting for opening and closing inventory including work in progress.

Ledgers were provided to demonstrate each of these steps, which form **Confidential Attachment CTMS 9**.

TSP was then able to split the total cost of production into total production costs for:

- raw materials – separately for
    - steel;
    - flanges;
    - auxiliary materials; and
    - paint;
- direct labour;
- overheads; and
- processing fees (which includes the cost of tower manufactured by related parties and outsourced painting and finishing labour for TSP-produced towers).

This split was supported by a general ledger printout splitting costs of production into sub-categories, and individual cost item by project ledgers (for 2012 and January – June 2013) that report the total of the cost of that item recorded against each project code, and the total cost of that item for the ledger period (i.e. separate ledgers for steel plate, flange, etc. showing the total cost of those items in each project). This

general ledger printout and project-by-project cost item ledgers form **Confidential Attachment CTMS 10**.

We selected the month of November for our detailed verification to source documents, and TSP provided individual cost item by project ledgers for steel, flanges, auxiliary materials, paint, processing fees, direct labour and overheads for the month of November (i.e. those provided for Confidential Attachment CTMS 9, but limited to the month of November). These ledgers form **Confidential Attachment CTMS 11**.

5.6.2 Reconciling the raw materials ledger to cost of production

To verify the cost of individual cost to manufacture items, TSP provided a raw materials verification package (**Confidential Attachment CTMS 12**).

This package includes a raw materials ledger for 2012 that records the opening balance, purchases, transfer of items to production and closing balance of all materials used by TSP in manufacturing towers during 2012. This includes steel plate, small amounts of steel used for fabricating certain internal components, paint, ladders, platforms, purchased internal components, zinc for galvanising, welding wire, flanges, etc.

TSP explained that the total of products transferred to finished goods in this ledger would not directly reconcile to the total cost of production for each applicable element (outlined above) as the raw materials ledger also records the movement of raw materials acquired by TSP then sent to related parties for 'processing' of towers, as well as sales of raw materials that are occasionally made by TSP of excess stock.

Using provided ledgers and supporting bookkeeping slips (within Confidential Attachment CTMS 10), TSP demonstrated how once these activities are accounted for, the steel costs transferred to production in the raw materials ledger reconciles to the total steel costs of production (as recorded in the *Cost reconciliation* workbook and the supporting ledgers of Confidential Attachment CTMS 9).

TSP explained that, to match the raw materials ledger to the recorded total cost of production for all other cost categories listed in the ledger to the individual cost item ledgers (Confidential Attachment CTMS 9), this process would need to be manually performed.

We accepted this steel costs reconciliation (noting that steel plate represents over 60% of the cost to manufacture wind towers – see above) and did not require TSP to perform this for all other raw materials.

To focus our verification, we requested TSP provide a raw materials ledger for the month of November 2012. This forms **Confidential Attachment CTMS 13**.

5.6.3 Raw materials - steel plate

Verification of steel volumes consumed

As previously mentioned, TSP adopts a steel volume allocation method to allocate its auxiliary, overhead and direct labour costs to projects on a monthly basis.

To ensure the accuracy of the steel volume ratios used, as well as to ensure that the correct amount of steel was allocated to each project in the CTMS calculations, we verified TSP's steel consumption records (upon which the allocation was based – discussed later in this Chapter).

TSP provided copies of its monthly steel consumption record sheet for each month for the period January 2012 – September 2013 (encompassing the investigation period and the months outside that period during which towers for the Australian project continued to be produced), which record the volume and value of booked into production each month, split into the relevant project the steel is attributed to. These form **Confidential Attachment CTMS 14**.

TSP explained that these consumption records are compiled on a monthly basis by collating steel requisition slips from the factory floor.

We reconciled the value recorded in the steel consumption records sheet for November to the November steel cost item by project ledger included in Confidential Attachment CTMS 11.

We requested that the volume figures recorded for November be verified further, and TSP provided the factory steel consumption requisition slips for the Australian project ([redacted]) for November (**Confidential Attachment CTMS 15**).

We observed that these requisition slips identified the Australian project, and recorded the steel volume entered into the production of that project in November, and the total of these requisition sheets matched the amount recorded in the November steel consumption record sheet.

As a result, we are satisfied that the steel consumption value recorded against each project in these consumption sheets is accurate.

As discussed previously, the ratio of steel consumed by an individual project to total steel consumed as recorded in these consumption sheets is then used by TSP to allocate labour, overheads and auxiliary materials (see alter discussion in this Chapter).

Verification of value to source documents

Having verified:

- the accuracy of the steel volumes consumed by each project month-by month and the total steel volumes consumed,

- the value of steel plate consumed in the consumption sheets to the November 2012 steel cost item by project ledger (in Confidential Attachment CTMS 11); and

- the value of steel in the raw materials ledger (Confidential Attachment CTMS 13) to the project-by-project cost item ledgers (Confidential Attachment CTMS 10)

we sought to verify the recorded cost of steel plate in the November 2012 raw materials ledger (Confidential Attachment CTMS 13) to source documents.

TSP provided a sub-ledger for steel plate purchases for November 2012. This forms **Confidential Attachment CTMS 16**.

From the steel plate sub-ledger, we selected all purchases of plate made by TSP during November (two in total).

Noting that these sales were invoiced over numerous (over 100) invoices due to invoicing regulations, we sighted all invoices and collected copies of selected invoices, as well as copies of TSP's internal bookkeeping slips recording both purchases. These form **Confidential Attachment CTMS 17**.

TSP also provided evidence of payment for these invoices, for which TSP maintains rolling accounts payable, by providing the relevant accounts payable ledgers, remittance advices and bank payment slips for bulk payments by TSP. These form **Confidential Attachment CTMS 18**.

5.6.4 Raw materials – other

To verify other material costs, we selected the following items in the November raw materials ledger (Confidential Attachment CTMS 13) to trace to source documents:

- flanges;

- paint; and

- the auxiliary materials of welding wire and hardware parts.

Collectively, these elements represented over 80% of the total cost of the other materials (i.e. those materials other than plate steel) recorded in the ledger for November 2012.

TSP provided sub-ledgers for November 2012 for each of these selected other materials, each of which reconciled to the raw materials ledger (Confidential Attachment CTMS 13). Individual purchases of these materials could be identified from these ledgers.

Flanges

We selected the major purchase of flanges made by TSP in November 2012. TSP provided its internal bookkeeping voucher for this purchase, as well as the receipts for the purchase (3 in total). The flanges sub-ledger, bookkeeping slip and invoices form **Confidential Attachment CTMS 19**.

We observed that these flanges were purchased from Chinese suppliers.

As discussed above, TSP advised that the actual cost and number of flanges used on each project was recorded and attributed to that specific project.

We asked TSP how it attributes the cost of flanges to each product they are consumed by. TSP explained that this is performed in the same way as described above for steel plate (i.e. through manual requisition slips that identify the project the flanges will be used in).

As a test to ensure that the requisite amount of flanges had been attributed to the Australian wind towers ([redacted] per tower, as identified in the specification sheet for the towers), we calculated a weighted average purchase cost per flange from the November purchase, and divided the reported total cost of flanges for each Australian tower (i.e. the total for the project divided by 56 towers) by this weighted average cost. This arrived at a total of [redacted] flanges per tower.

Considering that different types of flanges are purchased for different projects (observing several different types of flanges were purchased in the November purchase), and the cost of flanges is likely to fluctuate over the period in which the Australian towers were produced in line with steel prices, we were satisfied that this test reasonably demonstrated that the correct number of flanges in the Australian towers had been correctly attributed to the project.

We also performed this test for project [redacted] (the selected domestic project) with similar results.

Considering the above, we did not consider it necessary to trace the flange requisitions back to the Australian towers in the same manner as was undertaken for steel plate (noting the accuracy of the steel plate exercise, and the result of the above-descried test).

Paint

TSP provided a paint raw materials sub-ledger for November 2012. We chose the largest purchase of paint shown in the November sub-ledger. TSP provided its internal bookkeeping voucher and the purchase invoice for this transaction, which reconciled to the sub-ledger.

The paint sub-ledger and source documents form **Confidential Attachment CTMS 20**.

As discussed above, TSP advised that the actual litres of paint used on each project was recorded and attributed to each project. As with flanges and steel plate, TSP advised that it uses requisition slips that are fed into monthly paint consumption record sheets, recording the litres used and inventory value (weighted average) of paint consumed.

As with plate steel, TSP provided the monthly paint consumption sheets for January 2012 – September 2013 (**Confidential Attachment CTMS 21**), in which the [redacted] project was identified.

Within these sheets, we observed that the total cost of paint consumed attributed to the [redacted] project for November 2011 reconciled with that recorded in the monthly paint project-by-project ledger (part of Confidential Attachment CTMS 11).

We compared the total litres of paint recorded in these consumption sheets to an estimate provided by the Australian industry based on their knowledge of the towers' specifications, and considered that this provided assurance that the volume of paint reported in these consumption sheets to have been used on the [redacted] project is accurate (this assessment forms **Confidential Attachment CTMS 22**).

Welding wire and hardware parts (auxiliary items)

TSP provided separate sub-ledgers showing purchases of its welding wire and hardware parts for November 2012. We selected purchase transactions from these sub-ledgers, for which TSP provided invoices and its internal bookkeeping slips. These form **Confidential Attachment CTMS 23**.

As discussed previously, these items, as well as all other 'auxiliary' materials (i.e. everything besides steel, paint and flanges) are allocated to the projects manufactured by TSP (i.e. only those produced in-house) using TSP's steel volume allocation method (see Section 5.1.5).

We asked TSP to demonstrate this allocation for November 2012.

TSP provided an 'allocation of auxiliary sheet' (**Confidential Attachment CTMS 24**), which identified

- the volume of steel consumed by each project in the month (by project code);
- the total volume of steel consumed in the month; and
- the total cost of auxiliary materials consumed in the month

and allocated the total cost of auxiliary materials to each project using the steel allocation method ratio.

We verified the total volume of steel consumed in the month and the volume of steel consumed by each project in the month to the consumption records sheets (Confidential Attachment CTMS B – see Section 0). We also verified the total

auxiliary costs to the auxiliary costs individual cost item by project ledgers (Confidential Attachment CTMS 11).

We are therefore satisfied that TSP is allocating its ancillary costs on a steel volume ratio basis to projects produced by TSP, and that the total monthly auxiliary costs incurred by TSP are allocated.

5.6.5 Manufacturing overheads and depreciation

To verify the cost of depreciation and manufacturing overheads, TSP provided a project-by-project ledger for overheads (including manufacturing depreciation) for November 2012 (within Confidential Attachment CTMS 11).

TSP then provided a ledger printout for overheads for November 2012, which showed overhead costs for the month not by project but by cost type (e.g. depreciation, water and electricity, repair costs, etc). This matched the project code ledger. This ledger forms **Confidential Attachment CTMS 25**.

From this ledger, we selected:

- depreciation;
- electricity and water; and
- outside processing fees (which TSP explained represents some minor external processing of parts of towers, distinct from the 'processing' of complete towers by parties related to TSP, and the outsourced painting and finishing labour for towers produced in-house by TSP, which are discussed further in Section 5.6.7).

TSP provided sub-ledgers for each of these selected items, which reconciled to the overheads November 2012 ledger (attached as **Confidential Attachment CTMS 26**).

We selected:

- one purchase transaction of the external processing fee; and
- one electricity bill

for which TSP provided the reconciling invoices and bookkeeping slips (TSP internal records). These form **Confidential Attachment CTMS 27**.

We observed TSP's assets register on its [redacted] computer system (noting this was too large to practically collect a hard copy version of). We observed TSP open items in the register to demonstrate the inclusion of false flanges and production buildings in the assets register.

We collected sub-register print offs for these items, observing the original value (both of which were 'manufactured' or built by TSP) and residual value of the asset, and its

depreciation rate using the correct usable life periods of 20 years for buildings and 10 years for false flanges (classified as a tool) from TSP's audited accounts. These printouts form **Confidential Attachment CTMS 28**.

As discussed in Section 5.1.5, TSP's manufacturing overheads (including depreciation) costs are allocated to its in-house manufactured projects based on TSP's steel allocation method ratio.

We verified this allocation in the same way as was done for auxiliary costs (see Section 5.6.4), with reference to an overheads allocation sheet provided by TSP (**Confidential Attachment CTMS 29**).

5.6.6 Direct labour

To verify the cost of direct labour, TSP provided a ledger of direct labour costs by project code for November 2012, showing the total direct labour costs incurred by each project during the month of November 2012 (within Confidential Attachment CTMS 11).

TSP also provided a direct labour ledger for November 2012, which again showed direct labour allocated to each project (**Confidential Attachment CTMS 30**). This matched the project code ledger.

As with auxiliary item costs and overheads, TSP allocates direct labour to its in-house manufactured projects based on TSP's steel allocation method ratio (see Section 5.1.5).

We verified this allocation in the same way as for overheads and auxiliary items, with the use of an allocation sheet provided by TSP (**Confidential Attachment CTMS 31**).

5.6.7 Other costs (processing fee)

As discussed previously, the other costs item in TSP's CTMS calculations represents:

- the processing fee of towers manufactured for TSP by external related parties; and
- the cost of outsourced labour that conducts the painting and finishing of TSP's in-house manufactured towers.

See section 5.1.3 for clarification.

TSP explained that these costs are actuals incurred for each project (i.e. TSP attributes the actual processing cost incurred for a project to that project's code, rather than using its steel volume based allocation method).

To verify these costs, TSP provided a ledger of 'processing' costs by project code for November 2012, showing the total processing costs incurred by each project during the month of November 2012 (within Confidential Attachment CTMS 11).

TSP provided a ledger printout of the processing fee for November 2012, which again demonstrated the processing costs incurred by project in the period. This forms **Confidential Attachment CTMS 32**.

We observed within this ledger that no such processing had been incurred by the Australian project during the month of November 2012. We instead selected the month of June 2013 for further verification, and a ledger for this month showing processing costs by project was provided, along with bookkeeping vouchers identifying the [redacted] project that summed to the total processing fee attributed to that project in the June ledger.[2]

These documents form **Confidential Attachment CTMS 33**.

We observed that these services were provided by an unrelated supplier, as submitted by TSP.

To verify related party processing, we selected the processing fee in the June ledger for one project known to be processed by a related party. TSP provided the invoices for this processing fee for June, which reconciled to the ledger. We observed that this processing was undertaken by a related company ([redacted]).

These documents form **Confidential Attachment CTMS 34**.

5.6.8 Conclusion

Following the above verification, we are satisfied that the costs of manufacture submitted by TSP are a reasonably accurate record of those incurred by TSP.

We are satisfied that TSP is, in the regular course of accounting:

- recording the actual cost (using weighted average inventory valuation) of steel raw materials, flanges, paint and processing fees incurred in the production of towers for each project; and

- allocating the total monthly overheads, direct labour and auxiliary expenses incurred by TSP across in-house projects based on its steel volume allocation method.

[2] Noting that one invoice was in fact for the galvanising labour of towers for three projects, but the invoice was split across those projects by reference to the Kg galvanised for each project as identified in a supporting sheet.

5.7 Selling, general and administrative expenses (cost to sell)

As discussed in Section 5.1.1, TSP's CTMS data included calculations of its selling, general and administrative (SG&A) costs for the Australian project (entire length of the project) and the domestic towers invoiced during the investigation period. These costs were categorised by TSP in its CTMS data as:

- selling costs (including transport, insurance and customs, and promotion charges);
- administration costs (including administration and sales salaries, office supplies, consulting fees, insurance, etc); and
- financial expenses (including foreign exchange gain/loss, bank interest (a negative expense) and bank fees).

TSP explained that it had allocated its SG&A expenses evenly based on all revenue (not only main operations revenue), and had made no distinction between the domestic and Australian export markets.

To support these costs, TSP submitted an *SG&A Reconciliation* workbook and supporting documents.

In this workbook, TSP calculated Australian SG&A (for the Australian project period) and domestic SG&A (for the investigation period) separately.

In considering these calculations, we explained to TSP that we did not consider that the allocation provided accurately accounted for differences between export and domestic sales (e.g. consideration of export-only expenses such as customs fees and port fees).

In addition, we queried why TSP had allocated SG&A over total company revenue, as opposed to main operations, and that this may not be reasonable as the other revenue component of this revenue was for sales of scrap and surplus materials, which was an activity ancillary to the company's main purpose of manufacturing and selling wind towers.

In light of this, TSP submitted a *SG&A Reconciliation* workbook, re-calculating its SG&A allocation for domestic sales for the investigation period, to ensure export expenses were not included in this calculation, and allocating the expenses over revenue from main operations.

TSP did not re-submit its Australian SG&A calculation in light of the above, and we note that we do not have the full data set to be able to perform the re-calculations easily in isolation.[3] In any case, in light of the considerations of the method for

[3] Unable easily to split revenue for the non-Australian sales for the period July – September 2013, necessary to accurately allocate export expenses).

calculating normal value for TSP (see Chapter 8) it is considered that this re-calculation of Australian is not necessary for our purposes (as this data has not been used) and has not been pursued.

The original workbook, revised workbook and supporting documents form (**Confidential Attachment CTMS 35**).

Having regard to the above, our verification focussed on the domestic SG&A calculations.

In the revised *SG&A Reconciliation* workbook, TSP identified:

- total selling, general and administrative expenses for the investigation period; and
- total export-related expenses for the investigation period (customs fees and port handling charges)

which were able to be traced to provided ledgers in Confidential Attachment CTMS 35, as well as back to the total expenses in TSP's [redacted] income statements for the investigation period (discussed throughout this report).

TSP also identified:

- total revenue for main operations for the investigation period; and
- total revenue for each domestic project for the investigation period

which we verified to TSP's income statements for the investigation period and to the verified domestic sales listing (see Chapter 6 below).

TSP allocated the total expenses less the export-only expenses to each domestic project by reference to the ratio of revenue for that project over main operations income.

TSP explained that it considered that all other expenses besides the export-related fees should be evenly allocated across revenue as they apply equally to export and domestic sales.

In general, we are satisfied that this is a reasonable approach to allocating SG&A expenses. However, we note that TSP's calculations evenly apportioned inland transport (part of TSP's selling expenses) across domestic and export sales, noting there are potentially significant differences between the transportation of these sales.

Noting the approach to normal value discussed in Chapter 8:

- where TSP's domestic CTMS has been used to determine TSP's domestic profit, we considered TSP's even allocation to be reasonable, as it likely

understates this SG&A (considering that more inland transport may reasonably be allocated to domestic sales);[4] but

- in determining TSP's domestic SG&A to use in constructing a normal value , it is more precise to exclude inland transport from this domestic SG&A entirely to arrive at an ex-works normal value that can then be accurately adjusted for export inland freight (verified at Section 4.7.2).

We have therefore re-calculated an ex-works domestic SG&A, attached as **Confidential Attachment CTMS 36**.

5.8 Costs to make and sell – preliminary assessment

We verified TSP's CTMS for wind towers to source documents and to audited financial statements. As a result, we are satisfied that the information provided is accurate, relevant and complete.

We consider the CTMS calculations are suitable for:

- determining a constructed normal value under section 269TAC(2)(c) of the Act; and

- assessing ordinary course of trade under section 269TAAD of the Act.

TSP's CTMS calculations form **Confidential Appendix 2** (separately for domestic and Australian CTMS, noting the domestic CTMS shows both CTMS for transport included and excluded SG&A).

[4] Noting that export sales need only to be delivered to nearby ports while domestic sales may require significant transport and therefore incur greater transport costs.

6 DOMESTIC SALES

6.1 General

TSP explained that, during the investigation period, it sold wind tower sections, made to specifications provided by its customers, on the domestic market in China.

TSP explained that although the wind domestic towers are similar, each wind tower contract is different and built to the domestic customer's specifications.

In its response to the exporter questionnaire, TSP provided a *Domestic Sales* spreadsheet, which listed all sales of wind towers and embeds invoiced during the investigation period.

This data included details as to the:

- customer;
- type of tower (specification);
- details as to whether the sale was towers or embeds;
- contract number;
- contract date;
- invoiced price in RMB;
- mass (number of towers or embeds); and
- inland freight.

This forms **Confidential Attachment DOM 1**.

As discussed in Section 3.5.2, some of these domestically-sold wind towers were manufactured in-house by TSP, while others were manufactured by related parties. However, all transactions listed in the *Domestic Sales* spreadsheet were invoiced by TSP, who remains the selling party.

6.1.1 Volumes

During the investigation period, TSP sold [redacted] wind towers and embeds, and [redacted] additional embeds, on the domestic market.

Of these, [redacted] towers and embeds were manufactured by TSP. The remaining towers and [redacted] additional embeds were manufactured by related parties.

These sales were all to unrelated customers, except for sales of the [redacted] additional embeds, which were to a related party. These embed-only sales are considered to

not be like goods in any case (as they were not accompanied by tower sections) and have been excluded from our analysis.

6.1.2 Domestic sales process

TSP explained that the sales process of wind towers for its domestic customers is the same as that described for export sales at Section 4.1.2 (noting that TSP sometimes is directly approached to put in tenders, and at other times answers public notices to bid).

6.2 Domestic pricing

As with export sales, TSP makes domestic tenders having regard to a numbers factors, including:

- costs of production, including raw material and conversion costs;
- market characteristics; and
- the requirements of the specifications.

TSP sold wind towers in RMB on the domestic market.

6.3 Level of trade

In its response to the exporter questionnaire, TSP identified that all of its domestic customers were the same level of trade – original equipment manufacturers (i.e. wind farm project managers).

TSP does not consider these domestic sales to be at a different level of trade to Australian sales.

6.4 Delivery and payment terms

6.4.1 Delivery terms

TSP's domestic sales were either made at delivered, or ex-factory terms.

6.4.2 Payment terms and domestic credit

TSP explained that each sales contract will include different payment terms, depending on those negotiated with TSP.

TSP advised that, noting the number of domestic sales and the complexity of these payments terms, it has instead calculated an average accounts receivable turnover ratio and used the People's Bank of China short term borrowing rate (as discussed in Section 4.7.4) and submitted this in its *Domestic Sales* spreadsheet.

TSP provided a *Domestic credit calculation* workbook and supporting ledgers (**Confidential Attachment DOM 2**), which TSP used to demonstrate its calculation of

its average accounts receivable turnover rate. This was then applied to the invoiced amount in the domestic sales listing, using the above-mentioned interest rate.

We considered this to be a reasonable calculation of the cost of domestic credit.

6.5 Verification of sales to audited financial statements

As discussed in Section 4.6 above, we were able to reconcile TSP's *Domestic Sales* spreadsheet upwards to Union's audited financial accounts.

We are therefore satisfied that the *Domestic Sales* spreadsheets are complete and contain only relevant sales.

6.6 Verification of domestic sales to source documents

Prior to the visit, we selected five domestic wind towers sales from the detailed *Domestic Sales* spreadsheet, and requested that TSP provide source documents in relation to each invoice.

For each selected invoice, the TSP provided copies of the following documents during the visit:

- sales contract;
- commercial invoices; and
- proof of payment documents (either cheque or bank slip, along with TSP's internal bookkeeping voucher recording the payment).

In addition, TSP provided source documents for two self-selected domestic sales in its response to the exporter questionnaire.

We were able to match the sales information in the source documents to the data contained in the detailed *Domestics Sales* spreadsheet, including volume and value data.

The source documents, including proof of payment, of the selected sales are at **Confidential Attachment DOM 3**.

6.6.1 Inland transport

TSP provided line-by-line inland transportation costs for each sale of domestic wind towers in the *Domestic Sales* listing.

Unlike export sales, TSP advised that it was not able to identify invoice-by-invoice which domestic freight invoice is attributable to each individual domestic sale. Instead, TSP had calculated an amount for inland transport for each invoice.

TSP provided an *Inland Transportation of Domestic Sales* worksheet and supporting ledgers to demonstrate these calculations **Confidential Attachment DOM 4**.

This spreadsheet:

- listed the invoice value of each domestic sale;
- recorded the total domestic sales revenue for the investigation period (verified to the sales listing); and
- identified the total costs of inland transportation for the investigation period.

The percentage of each individual invoice over the total domestic sales value was then used to apportion the total inland transport figure to each invoice line.

As with export sales, TSP advised that it considered an apportionment over revenue to be the most accurate method of allocating these inland freight costs.

We noted some issues with TSP's calculations, namely that:

- the total inland freight listed included export and domestic inland freight, but was being apportioned over domestic revenue alone (TSP advised that it was not able to split export and domestic inland freight from its records);
- inland transport was being apportioned to all domestic sales, regardless of whether they were delivered or ex-factory (ex-factory should not attract this freight).

We corrected these calculations in the spreadsheet.

Noting TSP's revenue-based apportionment above, we again considered that as with export sales, it is more reasonable to apportion inland transportation with reference to sales volume. In any case, we note that this calculation is unnecessary to perform, as we have constructed a domestic normal value at ex-works (without inland transport) for the purposes of our normal value for TSP, and then adjusted only for export inland transport (see Chapter 8 for further discussion).

6.6.2 Packaging

As outlined in Section 4.7.3 above, TSP advised that packaging for domestic sales varies depending on customer requirements, as does export packaging.

TSP provided several different descriptions of what 'standard' domestic packaging is for wind towers, ranging from there being no packaging at all (as submitted in TSP's response to the Export Questionnaire and confirmed verbally by TSP early in the verification) to being the same as Australian sales. We note that this caused some confusion. TSP was not able to reasonably satisfy the verification team as to what TSP's domestic wind towers would likely be packaged as.

Consequently, TSP was unable to accurately demonstrate what an average cost of domestic packaging for TSP's towers would be.

This has been considered in arriving at an adjustment for packaging – see Chapter 9 for further discussion.

6.7 Arms length

In respect of TSP's domestic sales of wind towers, we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller.

We therefore consider TSP's domestic sales are arm's length transactions.

6.8 Ordinary course of trade, and suitability of sales

As wind towers are individually designed and engineered to meet the customer's specifications, they vary greatly from contract to contract over a range of factors including height, the MW turbine they are designed to support, finish, internal components, and packaging. Even sales of towers of the same height and MW turbine design can vary greatly from project to project.

As a result, we consider that each wind tower is a separate model and that, because of the many variables, it is not meaningful to adjust domestic prices to make them comparable with export prices. We therefore considered that, in line with s.269TAC(2)(a)(i), there is an absence of relevant sales of like goods on the domestic market in China that would be reasonable to be used for calculating normal values based on selling prices under s.269TAC(1) of the Act.

During the exporter verification, TSP agreed with this assessment.

For this reason, we have not undertaken an ordinary course of trade profitability and recoverability test for the purposes of identifying suitable sales for use in s.269TAC(1) normal values.

7 THIRD COUNTRY SALES

In its exporter questionnaire response, TSP provided a summary its export sales to third countries.

However, these wind towers, like domestic and Australian exports, are manufactured to varying specifications and considered to not be appropriate for use in determining normal value.

As a result, we did not undertake detailed verification of the third country data.

8 NORMAL VALUE

8.1 Particular market situation

This verification report does not address whether there is a particular market situation in China for steel. Steel costs have been reported and assessed based on information verified with TSP during the visit and no adjustments have been made to the verified steel costs.

In its consideration of the application the Commission noted in Consideration Report 221 that the application contained sufficient information and evidence to support the claims that the market situation findings in previous and current investigations are relevant and applicable to the Chinese plate steel market which is the major raw material input into the production of wind towers.

Following initiation of the investigation the Commission sent a questionnaire to the Government of China (GOC). The Commission noted in the questionnaire that based on the information available to the Commission at this stage of the investigation and the evidence gathered during INV 198, INV 190a and 190b and INV 177, it is reasonable to consider that a market situation exists and continues to exist in relation to the Chinese domestic market for plate steel.

The Commission advised the GOC that the purpose of the questionnaire was to provide the GOC the opportunity to provide any further evidence that might demonstrate that the factors found to exist in INV 198, INV 190a and 190b and INV 177 no longer exist or have effect, and that there could now not be said to be a market situation in relation to plate steel.

The due date requested for a response to the questionnaire from the GOC was 5 December 2013. A response was not received by the due date and as 8 January 2014 there has not been a response to the questionnaire from the GOC.

In its preliminary assessment of dumping margins in PAD 221 the Commission noted that the previous findings in REP 177, REP 190 and REP 203 and preliminary findings in SEF 198 that steel costs and prices do not reasonably reflect competitive market costs and prices in China. Plate steel is the major raw material input in the production of wind towers.

In PAD 221 the Commission preliminarily considered under Regulation 180 of the C*ustoms Regulations 1926* that the raw material costs (being plate steel) in the submission from Shanghai Taisheng do not reasonably reflect competitive market costs associated with the production or manufacture of like goods. The Commission therefore uplifted the prices of steel plate used in the constructed normal value for Shanghai Taisheng using available information from previous and present investigations into steel and plate steel.

On 19 December 2013 the Minister's decision to accept the Commission's findings and recommendations in regards to INV 198 was published. In REP 198 the Commission found in respect of plate steel that a market situation existed in the

domestic market for plate steel in China during the investigation period such that selling prices in that market are not suitable for normal value purposes. The investigation period for INV 198 was 1 January 2012 to 31 December 2012.

The Commission will consider whether a market situation for steel exists in China and whether steel costs for TSP should be adjusted and preliminary findings will be reported by the date of the SEF.

The normal values and dumping margins calculated and shown in this report may therefore change subject to any findings in regards to the above.

8.2 Constructed normal value

Based on the information provided by TSP, and the verification conducted on site, we are satisfied that prices paid in respect of domestic sales and domestic CTMS calculations are reasonably complete, relevant and accurate.

However, as discussed in Chapter 6, we consider domestic sales of wind towers unsuitable for determining normal values, due to the significant differences between towers produced for each project which we consider cannot be reasonably adjust for. We consider this is also true of export sales to third countries (see Chapter 7).

We have constructed a unit (per tower) ex-works normal value for the investigation period using:

- the verified Australian cost to manufacture wind towers for the GRWF project;
- the selling, general and administrative costs incurred in the domestic sale of wind towers during the investigation period excluding inland transport; and
- the profit achieved by TSP on profitable domestic sales of wind towers manufactured by TSP, sold during the investigation period.

We have limited our profit assessment to towers manufactured in-house by TSP as we cannot be satisfied of the reasonableness of the processing fees charged by related partiers to TSP to manufacture wind towers on their premises, and are therefore not satisfied that these reasonably represent competitive market costs.

We have made adjustments to this normal value, in accordance with s. 269TAC(8) or (9) of the Act (as appropriate), and we consider these adjustments are necessary to ensure a fair comparison of normal value and export price. These adjustments are discussed in detail in Chapter 9.

Our normal value calculations form **Confidential Appendix 3**.

9 ADJUSTMENTS

To ensure that the normal value was comparable to the Australian export price, the following adjustments were made:

9.1 Packaging expenses

As discussed in Section 4.7.3, TSP was able to calculate a reasonably accurate per tower packaging cost for its sales of Australian towers. A positive adjustment to the normal value has been performed of this amount.

However, as discussed in Section 6.6.2, TSP was unable to satisfy the verification team as to what domestic packaging of wind towers is likely to be, and how this could be quantified for the purposes of a negative adjustment to normal value. No such adjustment has been performed as a result.

We consider this reasonable, in particular noting TSP's original submission that domestic wind towers have no packaging.

9.2 Inland freight

As we have constructed a per tower normal value at ex-works, no downwards adjustment for domestic inland freight is necessary for sales sold domestically.

The export sales were made at FAS terms, we considered an upwards adjustment for export inland freight per tower is warranted, and have performed this adjustment (the quantum of which is verified at Section 4.7.2.

9.3 Credit terms

We consider a downward adjustment for domestic credit terms in the normal value calculation is required to ensure fair comparison to export price.

As discussed in Section 6.4.2, we verified and calculated average domestic credit terms with reference to TSP's accounts receivable period and a reasonable published interest rate. A per tower amount of domestic credit for the investigation period has been calculated and applied as a negative adjustment to the normal value.

We consider that an upwards adjustment for export credit terms is warranted to ensure fair comparison between the export price and normal value.

As discussed in Section 4.7.4, we have calculated credit terms of Australian sakes with reference to the phased payment schedule of the Australian sakes contract, and a reasonable published interest rate. A per tower adjustment amount for the investigation period has been calculated and applied as an upwards adjustment to normal value.

9.4 Export handling charges

Noting that the constructed normal value is a domestic ex works value, we consider that an upwards adjustment to normal value is warranted to account for export handling charges (sales made at FAS).

These charges were verified and discussed at Section 4.7.1. The verified per tower charges have been applied as an upwards adjustment to normal value.

9.5 VAT rebate

In China, it is common for the value-added tax (VAT) liability to differ between domestic and export sales, and the Commission routinely conducts an adjustment for these taxation differences.

The standard Chinese VAT rate is 17%.

In the case of wind towers, TSP advised that, during the period of exportation of wind towers to Australia, the VAT rebate amount for wind towers was a full rebate of 17%, and hence no adjustment for VAT differences is warranted.

To verify this, TSP provided copies of its China Customs export declaration forms for all export sales to Australia, and a corresponding VAT refund form from China Customs (**Confidential Attachment ADJ 1**).

This refund form demonstrated that a full 17% rebate was received for each of the exportations of wind towers to Australia by TSP.

We therefore consider that no adjustment is necessary to account for the VAT rebate received.

9.6 Adjustments – Conclusion

We are satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with s. 269TAC(9) of the Act, and we consider these adjustments are necessary to ensure a fair comparison of normal values and export prices:

Packaging costs	**Add** the cost of Australian packaging costs. The visit team cannot be satisfied as to the domestic inland packaging cost and hence does not consider a downwards adjustment warranted.
Export inland freight	**Add** the actual cost of export inland freight where applicable (to arrive at a FAS price).

Credit terms	**Deduct** the actual cost of domestic credit, **add** the cost of export credit.
Export handling charges	**Add** the cost of export handling charges.

Details of the adjustment calculations are included in Confidential Appendix 3.

10 DUMPING MARGIN – PRELIMINARY ASSESSMENT

We calculated a weighted average unit (per tower) export price and a corresponding weighted average unit constructed normal value for the investigation period.

We compared the two unit values in accordance with s. 269TACB(2)(a) of the Act.

The weighted average product dumping margin, for wind towers exported to Australia by TSP is negative 8.7%.

Details of the dumping margin calculations are at **Confidential Appendix 4**.

11 LIST OF APPENDICES AND ATTACHMENTS

APPENDICES	
Confidential Appendix 1	Export price calculations
Confidential Appendix 2	CTMS calculations
Confidential Appendix 3	Normal value calculations (including adjustments)
Confidential Appendix 4	Dumping margin calculations
ATTACHMENTS	
General	
Confidential Attachment GEN 1	Australian project (GRWF) contract
Confidential Attachment GEN 2	Australian project (GRWF) specifications sheet
Confidential Attachment GEN 3	Company profile brochure
Confidential Attachment GEN 4	TSP 2011 and 2012 audited financial accounts
Confidential Attachment GEN 5	Production process flow chart
Confidential Attachment GEN 6	TSP Group legal structure chart
Export sales	
Confidential Attachment EXP 1	*Australian Sales* spreadsheet
Confidential Attachment EXP 2	Forex accounts ledger
Confidential Attachment EXP 3	*Sales Reconciliation* package
Confidential Attachment EXP 4	Third country sales data
Confidential Attachment EXP 5	Australian sale source documents
Confidential Attachment EXP 6	Additional Australian sale proof of payment documents
Confidential Attachment EXP 7	*Handling costs* workbook
Confidential Attachment EXP 8	General ledger - customs and port fees

Confidential Attachment EXP 9	Sub-ledger - January – September 2013 port fees
Confidential Attachment EXP 10	Export handling costs – re-calculation
Confidential Attachment EXP 11	Export inland freight – re-calculation
Confidential Attachment EXP 12	GRWF contract attachment – specifications details
Confidential Attachment EXP 13	*Packing cost* package
Confidential Attachment EXP 14	People's Bank of China short term borrowing rate evidence
Cost to make and sell	
Confidential Attachment CTMS 1	Domestic and export CTMS calculations
Confidential Attachment CTMS 2	*Costs Reconciliation* workbook
Confidential Attachment CTMS 3	[redacted] income statement – January 2012 – June 2013
Confidential Attachment CTMS 4	Cost of main operations/other operations ledgers
Confidential Attachment CTMS 5	Cost of goods sold ledgers by project and adjustment slip
Confidential Attachment CTMS 6	Detailed project sub-ledgers for the Australian project for January 2012 – September 2013
Confidential Attachment CTMS 7	Main operations ledgers – split 'cost of sales' and 'return of tax
Confidential Attachment CTMS 8	Notice from the Financial Department regarding VAT
Confidential Attachment CTMS 9	Ledgers - cost of sales figure split to arrive at the cost of production of finished goods
Confidential Attachment CTMS 10	General ledger printout splitting costs of production into sub-categories
Confidential Attachment CTMS 11	November 2012 - individual cost item by project ledgers

Confidential Attachment CTMS 12	Raw materials verification package
Confidential Attachment CTMS 13	November 2012 raw materials ledger
Confidential Attachment CTMS 14	Monthly steel consumption record sheet for each month for the period January 2012 – September 2013
Confidential Attachment CTMS 15	November 2012 steel requisition slips from factory
Confidential Attachment CTMS 16	Sub-ledger for steel plate purchases for November 2012
Confidential Attachment CTMS 17	Plate steel invoices and bookkeeping slips
Confidential Attachment CTMS 18	Plate steel proof of payment
Confidential Attachment CTMS 19	Flanges sub-ledger, bookkeeping slip and invoices
Confidential Attachment CTMS 20	Paint sub-ledger and source documents
Confidential Attachment CTMS 21	Monthly paint consumption sheets for January 2012 – September 2013
Confidential Attachment CTMS 22	Paint consumption – industry data comparison
Confidential Attachment CTMS 23	Sub-ledger purchases of welding wire and hardware parts for November 2012
Confidential Attachment CTMS 24	Allocation of auxiliary costs sheet
Confidential Attachment CTMS 25	Ledger printout for overheads for November 2012
Confidential Attachment CTMS 26	Selected overheads sub-ledgers
Confidential Attachment CTMS 27	External processing fee and electricity - source documents
Confidential Attachment CTMS 28	Assets register printouts
Confidential Attachment CTMS 29	Allocation of overhead costs sheet
Confidential Attachment CTMS 30	Direct labour ledger for November 2012
Confidential Attachment CTMS 31	Allocation of labour costs sheet

Confidential Attachment CTMS 32	Ledger printout of related-party processing fee for November 2012
Confidential Attachment CTMS 33	Ledger printout of related-party processing fee for June 2013 and bookkeeping vouchers
Confidential Attachment CTMS 34	Related-party processing invoices
Confidential Attachment CTMS 35	*SG&A Reconciliation* workbook (original and revised)
Confidential Attachment CTMS 36	SG&A re-calculation to remove inland transport
Domestic sales	
Confidential Attachment DOM 1	*Domestic Sales* spreadsheet
Confidential Attachment DOM 2	*Domestic credit calculation* workbook
Confidential Attachment DOM 3	Domestic sales source documents
Confidential Attachment DOM 4	*Inland Transportation of Domestic Sales* worksheet
Adjustments	
Confidential Attachment ADJ 1	China Customs export lodgement documents, and VAT rebate forms