

Australian Government Anti-Dumping Commission

INVESTIGATION 238

ALLEGED DUMPING AND SUBSIDISATION OF CERTAIN DEEP DRAWN STAINLESS STEEL SINKS EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA

VISIT REPORT - AUSTRALIAN INDUSTRY

TASMAN SINKWARE PTY LTD

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

June 2014

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ABBREVIATIONS

\$	Australian dollars				
ACBPS	Australian Customs and Border Protection Service				
the Act	Customs Act 1901				
AD Agreement	Anti-Dumping Agreement				
ADN	Anti-Dumping Notice				
the applicant	Tasman Sinkware Pty Ltd				
the Commission	the Anti-Dumping Commission				
the Commissioner	the Commissioner of the Anti-Dumping Commission				
СТМ	Cost to make				
CTMS	Cost to make & sell				
Fletcher Building	Fletcher Building (Australia) Pty Ltd				
FOB	Free On Board				
FY	financial year				
	[supplier details]				
NIP	non-injurious price				
the goods	the goods the subject of the application (also referred to as the				
the goods	goods under consideration or GUC)				
the Parliamentary Secretary	the Parliamentary Secretary to the Minister for Industry				
Tasman	Tasman Sinkware Pty Ltd				
USP	Unsuppressed Selling Price				
WTO	World Trade Organisation				

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1 BACKGROUND AND PURPOSE

1.1 Background

On 31 January 2014, Tasman Sinkware Pty Ltd (Tasman) lodged an application with the Anti-Dumping Commission (the Commission) requesting that the Parliamentary Secretary to the Minister for Industry (the Parliamentary Secretary) publish a dumping duty notice and a countervailing duty notice in respect of deep drawn stainless steel sinks exported to Australia from the People's Republic of China (China).

In this application, Tasman alleges that the Australian industry has suffered material injury caused by deep drawn stainless steel sinks exported to Australia from China at dumped and subsidised prices.

Tasman claims the industry has been injured through:

- lost sales volumes;
- reduced market share;
- price depression;
- price suppression;
- loss of profits and profitability;
- reduced return on investment;
- reduced capacity utilisation; and
- reduced employment numbers and wages.

Public notification of the initiation of the investigation was made on 18 March 2014 in *The Australian* newspaper and through Anti-Dumping Notice No. 2014/20.

1.2 Purpose of visit

The Commission visited Tasman as part of the investigation. The purpose of the visit was to:

- obtain relevant information about the Australian market for deep drawn stainless steel sinks;
- gain a greater understanding of the company's manufacturing, marketing and distribution processes;
- verify information provided in the application;
- obtain relevant financial data about claimed injury to the Australian industry; and
- gather information relevant to assessing whether the allegedly dumped and/or subsidised imports have caused material injury to the Australian industry.

1.3 Meeting details

Company	Tasman Sinkware Pty Ltd 51 Naweena Road Regency Park SA 5010
Dates of visit	7 April 2014 to 10 April 2014

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The following representatives were present at various stages of the meetings:

Tasman	Mark Freeman, General Manager				
	Michael Watters, Commercial Manager				
	Steve Warnett, International Business and Product Quality Manager				
Consultant	Arthur Vlahonasios				
	International Trade Remedies Advisor				
	Australian Industry Group				
Anti-Dumping	Joanne Reid, Director Operations 2				
Commission	Andrea Stone, Manager Operations 2				
	Reuben McGovern, Investigator Operations 3				

1.4 Investigation process and timeframes

The Commission advised Tasman of the investigation process and timeframes as follows.

- The investigation period is 1 January 2013 to 31 December 2013.
- The injury analysis period is from 1 January 2009 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation, which falls on 19 May 2014, and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

The Commission will not make a PAD until (and if) it becomes satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice. This was distinguished from the 'reasonable grounds' threshold for initiation of the investigation.

• The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 7 July 2014 or such later date as the Parliamentary Secretary allows under s.269ZHI of the *Customs Act 1901* (the Act).

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

 Following receipt and consideration of submissions made in response to the SEF, the Commission will provide its final report and recommendations to the Parliamentary Secretary. This final report is due no later than 20 August 2014 unless an extension to the SEF or the final report itself is approved by the Minister.

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1.5 Visit report

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

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

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2 THE GOODS

2.1 Description

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

Deep drawn stainless steel sinks with a single deep drawn bowl having a volume of between 7 and 70 litres (inclusive), or multiple drawn bowls having a combined volume of between 12 and 70 litres (inclusive), with or without integrated drain boards, whether finished or unfinished, regardless of type of finish, gauge, or grade of stainless steel and whether or not including accessories.

Additional product information

The application contains the following further information in relation to the goods the subject of the application.

For the purposes of this definition, the term "deep drawn" refers to a manufacturing process using metal forming technology to produce a smooth basin with seamless, smooth, and rounded corners. Deep drawn stainless steel sinks are available in various shapes and configurations and may be described in a number of ways including flush mount, top mount, or undermount (to indicate the attachment relative to the countertop). Stainless steel sinks with multiple deep drawn bowls that are joined through a welding operation to form one unit are covered by the scope of the investigations. "Finished or unfinished" refers to whether or not the imported goods have been surface treated to their intended final "finish" for sale. Typically, finishes include brushed or polished.

Deep drawn stainless steel sinks are covered by the scope of the investigation whether or not they are sold in conjunction with accessories such as mounting clips, fasteners, seals, sound-deadening pads, faucets (whether attached or unattached), strainers, strainer sets, rinsing baskets, bottom grids, or other accessories.

Excluded from the definition of the goods the subject of this application are stainless steel sinks with fabricated bowls. Fabricated bowls do not have seamless corners, but rather are made by notching and bending the stainless steel, and then welding and finishing the vertical corners to form the bowls. Stainless steel sinks with fabricated bowls may sometimes be referred to as "fabricated sinks".

Deep drawn stainless steel sinks are commonly used in residential and nonresidential installations including in kitchens, bathrooms, utility and laundry rooms. When used in the context of bathrooms, deep drawn stainless steel sinks may there be referred to, for marketing purposes, as "wash basins". As noted above, deep drawn stainless steel sinks may have may, or may not, have a single (or multiple) integrated drain board that forms part of the sink structure, designed to direct water into the sink bowl.

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2.2 Tariff classification

The application states that the goods are classified within tariff subheading 7324.10.00 (statistical code 52), in Schedule 3 of the *Customs Tariff Act 1995.*

The Australian Customs and Border Protection Service's (ACBPS) tariff branch has confirmed this is the correct tariff classification applicable to the goods.

The rate of Customs duty payable is 5%.

2.3 Australian Standard

At the verification visit, Tasman provided a copy of the relevant Australian and New Zealand standard for household sinks - AS/NZ 1756 – 1999.

This forms Attachment GEN 1.

We observed that this standard covers not only stainless steel sinks, but also enamelcoated, china (ceramic), plastic and composite material sinks.

At the verification, Tasman advised that the standard is not strictly enforced and that there are no particularly onerous conditions of the standard or extra costs incurred by manufacturers to meet the standards (i.e. no standard-specific modifications that must be made to the production process to meet the standard).

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3 THE AUSTRALIAN INDUSTRY

3.1 Corporate, organisational and ownership structure

Tasman is a private company, with administrative and manufacturing functions based at Regency Park, South Australia.

The company is 100% owned by Tasman Australia Pty Ltd, which is, through other companies, ultimately 100% owned by Fletcher Building Limited, the New Zealand-based holding company of the Fletcher Building Group.

3.2 Accounting structure and details of accounting systems

Tasman's financial year (FY) is from 1 July to 30 June.

The application advised that Tasman does not prepare company-level annual financial reports, as these are performed at the consolidated Fletcher Building Group level.

During the verification visit, Tasman provided an overview of its accounting and enterprise resource planning systems, which can be summarised as follows:

- SAP is used for purchasing, invoicing, maintenance, costing, accounts payable, the fixed assets register, and inventory valuation;
- for corporate reporting purposes, high-level revenue and costing data is manually transferred from SAP into 'Essbase', which then feeds into Fletcher Building's Hyperion system for corporate consolidation and reporting.

Tasman advised that it operates one company-level profit centre and multiple cost centres, though only one cost centre for the manufacturing (production) activity of the business. The other cost centres relate to the various warehousing and sales offices of Tasman as well as head office, sales and marketing and export cost centres.

3.3 Relationship with suppliers and customers

Tasman purchases approximately 80% of its stainless steel from [supplier details].

[manufacturing

[manufacturing

process.]

The remainder of Tasman's stainless steel is purchased from a number of smaller suppliers and

process].

In relation to other materials, Tasman advised:

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- additional manufacturing inputs and sink components such as timber backing boards and waste fittings are sourced from a range of local and overseas suppliers;
- taps and accessories such as colanders, baskets, cutting boards and bowl protectors are sourced from a range of local and overseas suppliers; and
- packaging materials are sourced domestically from [supplier details].

In addition, Tasman imports fully manufactured deep drawn stainless steel sinks and stainless steel fabricated sinks (see Section 3.5).

Tasman submitted that it has no relationship other than a commercial buyer/seller relationship with any supplier.

Tasman sells its products to a range of national and regional distributors, comprising related and non-related entities. The related entities that Tasman supplies are [related customer

names], which are all part of the Fletcher Building Group.

Tasman submitted that its legal relationship with its customers does not impact the price or any trading terms between it and its related customers. Tasman advised that all arrangements with these customers are commercial arms-length transactions based on market competitive tender pricing.

3.4 Manufacturing facilities

Tasman's manufacturing facilities are located at Regency Park in Adelaide.

Tasman operates a single production line at this facility, which can be logically broken into two stages:

- 1. pressing and cutting of sink bowls and drainer boards; and
- 2. welding, edge grinding, polishing and finishing.

Tasman advised that each stage is continuous but it is able to store pressed and cut bowls and drainer boards on site and this does not necessarily feed continuously into the second stage of manufacture.

The manufacturing process is highly automated with robotics employed to feed the hydraulic presses that punch the stainless steel sinks into shape, as well as the welding, polishing, grinding and washing functions. The production process is discussed further below.

Tasman currently operates one shift each weekday, with 19 staff on the factory floor. Tasman submitted that the facility has previously operated up to three shifts per day.

Tasman advised that the level of automation with the factory, allows it to adjust the timing of a production run to suit its production objectives.

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3.5 Product Range

3.5.1 Product range

Tasman's full product offering covers:

- deep drawn stainless steel sinks;
- fabricated stainless steel sinks;
- sink accessories (including chopping boards, colanders, bowl protectors, drainer baskets, utility trays and bench top drainer trays); and
- taps.

To demonstrate its product range, Tasman supplied a copy of its most recent (2013) product catalogue, which forms **Attachment GEN 2**.

Tasman submitted that sales of deep drawn stainless steel sinks or fabricated sinks are commonly made in 'packs' that include the sink and some accessories (commonly a chopping board and colander). These packs may also include taps (less commonly).

Tasman advised that it also sells taps and accessories separately from sinks.

3.5.2 Range of deep drawn stainless steel sinks

Tasman sells deep drawn stainless steel sinks under its "Oliveri" brand name. Of these, Tasman:

- manufactures the majority of its range; and
- imports and on-sells some fully manufactured deep drawn stainless steel sinks from China.

Tasman's 'Oliveri' sinks all come with a lifetime warranty.

Within its range of deep drawn stainless steel sinks Tasman offers a range of sink types, which can be broken down by product range, then bowl configuration/number, then other characteristics like drainer board configuration and mounting type (undermount/top-mount).

Tasman's range of deep drawn stainless steel sinks include Nu-Petite[®], Monet[®], Diaz, Petite, LakeLand, Elan, Genesis, Solitaire[®] and Titan.

Tasman advised that all its deep drawn stainless steel sinks are embossed with the Oliveri brand insignia, including those that are imported.

According to its product catalogue (discussed above), Tasman's standard bowl configurations of deep drawn stainless steel sinks are:

• single bowl;

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- bowl + ½ bowl;
- bowl + $\frac{3}{4}$ bowl;
- double bowl; and
- double bowl + $\frac{1}{2}$ bowl.

Additionally, Tasman's costs and sales data (discussed below) indicates Tasman also supplies triple bowl sinks.

Tasman's product catalogue demonstrates that its bowl configurations are offered across ranges but not all types are available in all ranges (e.g. Solitaire[®] sinks only come in single bowl configuration).

Tasman's product catalogue also demonstrates that deep drawn stainless steel sinks may:

- incorporate a single or double (both sides) welded draining board as part of the sink;
- be round, square or rectangular in shape;
- be undermount or top-mount (inset);
- be left or right-sided;
- include tap landings or provide for the tap be incorporated directly into the bench top;
- be either of a polished or brushed finish (the brushed finish is known as the 'Finire' model).

Tasman's 'Finire' model brochure forms Attachment GEN 3.

As with bowl configurations, these characteristics are available in different variants across ranges (e.g. Finire model only offered in some ranges, some ranges do not have sinks available with two drainer boards, etc.).

To further clarify its range of sinks (including fabricated and deep drawn stainless steel) Tasman provided a copy of a 'Oliveri hierarchy differentiation' presentation, which provided a comparative analysis of its sinks range, including origin, release date, if the range is sold in packs with accessories and/or taps, technical specifications (such as bowl radius, thickness and finish), key product features (e.g. includes rear waste outlets, low profile edging, etc.). This forms **Confidential Attachment GEN 4**.

3.5.3 Product tiers

In its application, Tasman advised its models of deep drawn stainless steel sinks can be divided into market segments (or product 'tiers') that are categorised by their respective price points, namely:

- entry-level;
- mid-range; and
- top-range.

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During the verification, Tasman explained that, internally, it categories its sinks as [entry-level], '[entry-level], [mid-range] or '[entry-level].

Tasman explained that its ranges of deep drawn stainless steel sinks fit into the [entry-level] or [mid-range] product categories, while its ranges of fabricated sinks (not deep drawn stainless steel sinks) are considered to be its [top-range] sinks. This categorisation is tied with range names i.e. Tasman has [entry-level], [mid-range] or [top-range] ranges.

For example:

Range	Deep drawn or fabricated	Market Segmentation
Sonetto ®	Fabricated	[top-range]
Monet®	Deep drawn	[mid-range]
Diaz ®	Deep drawn	[mid-range]
LakeLand®	Deep drawn	[entry-level]

Tasman also noted that within these categories, there is a continuum of ranges (e.g. certain ranges will be on the higher sider of **[mid-range]**, or the lower side of [entry-level], etc.).

We queried with Tasman what differentiates sinks across and within these categories. Tasman explained that a number of factors contribute to the classification of a range as either [entry-level] or [mid-range], including:

- [factor];
- [factor];
- dimensions (impacts functionality);
- waste placement (rear placement is preferable to central to allow for maximizing under-bench cupboard space);
- design trends (cleaner, straighter lines and lower profile edges, etc.); and
- inclusion of backing boards for sound insulation.

Tasman explained that its lower-tier (i.e. **Construction** [entry-level] or lower side of [mid-range]) products are generally sold as stand-alone products (i.e. not in a pack with accessories or tap), while the higher-scale sinks are generally sold in packs. Tasman further noted that the quality of accessories and/or taps sold in these packs increases as the ranges move up the continuum. We confirmed this to be the case in Tasman's product catalogue.

Although Tasman is able to differentiate on price due to the above characteristics it explained that there are

[costing/pricing strategy]. One such cost difference relates to the brushed finish.

[manufacturing process]. The same grade of steel is used but Tasman is charged extra for the additional processing.

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3.6 Production process

During the verification visit, Tasman provided a tour of their manufacturing facility.

We observed Tasman's production process of deep drawn stainless steel sinks to be as follows.

- [step in manufacturing process]
- The blanks are deep drawn and stretched using mechanical and hydraulic presses into bowls.
- Drainer trays are pressed from the blanks.
- The plastic protective sheet is stripped from the bowls and drainers.
- The bowl is welded to the drainer.
- Weld joints between the bowl and drainer are ground.
- The sink assembly is polished and washed.
- A wood backing panel is glued to the drainer for strength and sound deadening.
- Installation clips are glued to the sink.
- A foam gasket seal is applied to the underside edge of the sink.
- The finished sink is packaged for delivery (with accessories if sold in a pack).

3.7 Like goods

In its application, Tasman stated that it is the sole Australian producer of deep drawn stainless steel sinks, which it submits are like goods to the goods under consideration.

The basis for this claim by Tasman is that the deep drawn stainless steel sinks that it manufactures:

- are alike in physical appearance;
- compete directly in the same market;
- are directly substitutable; and
- have the same end-uses,

with imported deep drawn stainless steel sinks.

In light of the above, Tasman considers that the essential characteristics of imported deep drawn stainless steel sinks are the same, or similar to, locally produced deep drawn stainless steel sinks.

Based on information available, as well as discussions and verification with Tasman, we consider:

- the primary physical characteristics of the goods and locally produced goods are similar;
- the goods and locally produced goods are commercially alike as they are sold to common users, and directly compete in the same market;
- the goods and locally produced goods are functionally alike as they have a similar range of end-uses; and
- the goods and locally produced goods are manufactured in a similar manner.

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In light of the above, we are satisfied that the Australian industry produces like goods to the goods the subject of the application, as defined in section 269(T) of the Act.

The issue of like goods will continue to be assessed throughout the investigation.

3.8 Annual turnover

Tasman's turnover for all products in FY2013 was approximately . Of this, domestic sales accounted for **an example (and a constant of total revenue)**.

Australian-manufactured deep drawn stainless steel sinks make up approximately of Tasman's total revenue, and 62% of Tasman's domestic revenue, with the remaining revenue coming from imported fabricated sinks, imported deep drawn stainless steel sinks, sales of taps and other accessories, as well as small amounts of sales of steel scrap resulting from the deep drawn stainless steel sinks manufacturing process.

3.9 Capacity

In Confidential Appendix A7 of the application, Tasman provided capacity and capacity utilisation figures in terms of a percentage of sales to total production capacity.

Within Confidential Appendix A7, Tasman included data of its production volumes, which indicated its capacity utilisation to be as follows:

	FY2009	FY2010	FY2011	FY2012	FY2013
Tasman Capacity Utilisation					

Tasman's capacity is further discussed at Section 7.7 of this report.

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4 AUSTRALIAN MARKET

4.1 Background

During the verification, Tasman provided an 'Industry Structure' chart, showing major sources of supply (including the identity of known importers), the known channels to market and market segments, as well as Tasman's estimates of the total percentage of the market held by each source, channel and segment and Tasman's own share within each of these. This forms **Confidential Attachment GEN 5**.

4.2 Sources of supply

Tasman submitted that the Australian deep drawn stainless steel sink market is supplied by Australian-manufactured product (made by Tasman alone) and imports. Tasman advised that there were previously other deep drawn stainless steel sinks manufacturers in Australia but these have since turned to sourcing imports.

In its application Tasman submitted that import supply is increasingly from China, with a smaller volume of imports coming from Thailand.

Import data obtained from ACBPS demonstrates that import supply is from a number of countries, with China and Thailand identified as significant sources of supply.

In its 'Industry Structure' chart (Confidential Attachment GEN 5), Tasman estimated that its own domestically-produced deep drawn stainless steel sinks account for **sector** of the total market with the remaining **sector** supplied by imports (including Tasman's own imports).

4.3 Market segmentation and end use

Tasman's application advised that deep drawn stainless sinks are commonly used as fixtures in residential and non-residential installations such as kitchens, bathrooms, utility and laundry rooms.

The 'Industry Structure' diagram provided at the verification (Confidential Attachment GEN 5) segments the Australian market for deep drawn stainless steel sinks into:

- residential renovation (estimated
- residential new build (estimated
- non-residential (estimated

of total market); of the market); and of the market).

Among these segments, Tasman's Industry Structure chart identified that Tasman's Oliveri brand carries the most weight in the

strategy].

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Deep Drawn Stainless Steel Sinks – Australian Industry Visit Report – Tasman Sinkware Pty Ltd

[market

4.4 Imports by applicant

As noted above, Tasman imports fully-manufactured deep drawn stainless steel sinks from China, which it on-sells. Like Tasman's own production, these goods sold under the 'Oliveri' brand name.

During the verification visit Tasman advised that its 'Elan' and 'Genesis' ranges are imported from China as well as some other minor ranges ('Commercial' and part of the 'Billabong' range). The rest of the range of deep drawn stainless steel sinks is domestically manufactured.

Tasman explained that its 'Elan' range sinks form part of its standard product selection and are included in its product catalogue (Attachment GEN 2).

marketing strategy].

Both the 'Elan' and 'Genesis' ranges are classified as the '**Generative** [entry-level] product tier by Tasman. We note from data supplied by Tasman that the 'Billabong' sinks are also classified as '**Generative** [entry-level], while the 'Commercial' range sinks are 'better' [mid-range].

We observed that Tasman's imported deep drawn stainless steel sinks account for of sales volume and **state of** of sales value of Tasman's Australian sales of deep drawn stainless steel sinks during FY2013.¹

Tasman's rationale for importing certain deep drawn stainless steel sinks is discussed further in Chapter 8.

4.5 Marketing and distribution

4.5.1 Distribution channels

Tasman is a wholesale manufacturer that does not sell directly to the public. Instead, Tasman sells directly to retailers and distributors who on-sell the goods to consumers or to end users that use sinks in their specific applications.

In relation to imported goods, the Commission understands that, broadly, deep drawn stainless steel sinks are either imported by:

- entities that sell the goods directly to end users (i.e. those who install the sinks); or
- entities that on-sell the goods to other businesses that then supply end users (i.e. that operate a similar business model to Tasman).

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¹ Source – Tasman's application Appendix A2.

4.5.2 Distribution channels and sales team

Tasman advised that its customers for deep drawn stainless steel sinks fall into the following channels:



[internal channel to market strategy].

Tasman's Industry Structure chart (Confidential Attachment GEN 5) identified that the majority of Tasman's sales are to the **Confidential** channels with only a small percentage of its sale to the **Confidential** channel [market strategy], which is predominantly supplied by imported goods.

The chart further identifies that the

[market

strategy].

Tasman advised that it has an agent representing it in Canberra/Wagga Wagga and another in Darwin. The agents receive a **second second** commission on the value of the sales they make.

The commission, calculated after applicable rebates, is recorded in the Appendix A4 sales data. The Commission observed that the commissions applicable to the selected invoices were calculated as **a second** of the net sales value after **a second** [valuation strategy].

For other regions, Tasman advised that it operates a sales team to make contact with the appropriate representatives from its customers (**Example 1** [market strategy]).

Tasman explained that in an attempt to combat price,



For example,

Tasman asserts that this situation arose because of the lower prices of dumped imports. Further discussion Oliveri's sales via

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Tasman explained that to increase market prominence it will from time to time

[marketing strategy].

Tasman maintains

[market

strategy].

Tasman explained that it is also an

[market strategy].

Further discussion of Tasman's distribution arrangements is contained in Chapter 5.

4.6 Demand variability

Tasman explained the Australian market's performance is closely linked to the overall performance of the new building, alterations and additions sectors. This can vary across geographical regions with booms and slow-downs of regional property markets.

In terms of seasonal fluctuations Tasman submits that there is a discernible slow-down in the market in December and January as the building and construction sector enters its annual lull over the Christmas/New Year period.

4.7 Market size and share

In its application Tasman used annual import volume data (in units) sourced from the Australian Bureau of Statistics (ABS) and its own sales data to estimate the size of the Australian market for deep drawn stainless steel sinks for each financial year, during the period FY2009 – FY2013 inclusive. Data was not submitted for the period of calendar year 2013 (the investigation period).

During consideration of the application, the Commission compared the import volumes in the application to the data in the ACBPS import database. The import data showed that total imports of deep drawn stainless steel sinks under the relevant tariff classification was very similar to the ABS data relied upon by Tasman. Some minor variations in the total figures between the two sets of data were observed, however both sets of data provided very similar results for market size and share.

For the purposes of assessing market size, the Commission considers the ABS data to be reasonably accurate for the period FY2009-FY2013.

In relation to the calendar year 2013, the Commission considers that the data in the ACBPS import database is reasonable and reliable for this purpose.

The sales data submitted by Tasman in relation to its own sales was also assessed (see Chapter 5 below) and considered reasonably reliable.

Figure 1 below shows the size of the Australian market based on Tasman's submitted ABS import data and its own sales data for the period FY2009 – FY2013, and Tasman's

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own sales data and import data obtained from ACBPS' import database for calendar year 2013.



Note: the last period in Figure 1 is calendar year 2013 while the other periods are financial years (overlap exists between the 2013 calendar year and FY2013).

Figure 1 – Australian market size FY2009 - calendar year 2013

The market size trends depicted in Figure 1 show that the overall size of the Australian market increased year-on-year from FY 2009 to FY2011, before declining in FY2011 to levels similar to those seen in FY2009, then increasing in volume in FY2013 and calendar year 2013.

The market size in calendar year 2013 is the largest of all the periods examined, being slightly above that of FY2011.

Data supporting the Commission's assessment of the Australian market size for deep drawn stainless steel sinks is at **Confidential Appendix 1**.

4.8 Substitutable Products

In terms of commercially significant substitutes, Tasman's application submits that fabricated stainless steel sinks and non-stainless steel alternatives (e.g. glass top or ceramic sinks) are substitutable for its deep drawn stainless steel sinks. The application advises that these alternatives are generally high-end designer products sold at a higher price than deep drawn sinks and in lower volumes.

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5 SALES

5.1 General

5.1.1 Data provided – detailed

In Confidential Appendix A4 to its application, Tasman provided a detailed sales listing of its domestic sales of all stainless steel sinks for the investigation period and quarters one and two of FY2014 (i.e. data from July 2013 to December 2013).

As this listing is for sales of all stainless steel sinks it includes sales of:

- domestically manufactured deep drawn stainless steel sinks;
- imported deep drawn stainless steel sinks;
- imported fabricated sinks; and
- seconds (small amount).

The data included the following information:

- customer name and code;
- bowl configuration;
- product type (manufactured deep drawn stainless steel; imported deep drawn stainless steel, seconds);
- product code;
- product description;
- invoice number and date;
- payment terms;
- delivery terms;
- quantity (in units);
- gross sales value;
- on invoice discounts;
- off-invoice rebates;
- settlement discounts; and
- net sales value.

We were able to verify the data within these listings as discussed in Sections 5.7 and 5.8 of this report.

Using this data, we are able to readily isolate sales of deep drawn stainless steel sinks manufactured by Tasman itself and sold during the investigation period.

5.1.2 Data provided – period aggregates

In addition to detailed line-by-line data, Tasman submitted (in various appendices as required) sales volume and value data for domestically manufactured deep drawn stainless steel sinks, by product (divided by bowl number), for the following periods:

- calendar year 2009;
- FY 2009 2013;

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- calendar year 2013 (investigation period); and
- Q1-Q2 FY2014.

This data split by bowl number is not able to be used to differentiate sales into product tiers (i.e. **[entry-level]** or **[mid-range]**), ranges, or specific product characteristics (e.g. number of drainer boards).

5.1.3 Revenue for sink 'packs'

Tasman explained that its accounting system does not allow for the isolation of revenue related to the sink itself when the sink is sold in a pack. That is, it does not separately recognise that a proportion of a total revenue figure is for the sink and a proportion is accessories or a tap but merely records the revenue collectively under the product code of the sink pack.

Tasman explained that its submitted sales data in fact relates to both sales of sinks on their own and those sold as part of a pack. Consequently, for sales listed in Appendix A4 that are sink packs the revenue listed is for the whole pack. Similarly, the Confidential Appendices A6.1 and A6.2 provided includes revenue for sales of packs and sinks sold on their own.

Due to the nature of its pricing and product offering, Tasman explained that it is not possible to identify within the revenue for sinks sold in packs what amount relates to the sink itself and what should be attributed to accessories or taps. Pricing of sinks in packs is further discussed below.

5.2 Ordering, Invoice and Delivery Arrangements

5.2.1 Warehousing

Tasman advised that they have warehousing facilities in **[distribution strategy]** that carry a range of stock.

5.2.2 Ordering Process

Tasman advised that sales orders are submitted via phone, fax or email.

[customer service strategy].

Upon receipt of an order, Tasman creates an order acknowledgement and delivery note. The delivery note is produced in

[customer service strategy].

Tasman advised that there is no minimum order quantity but a minimum order value threshold of \$100 applies or a \$20 surcharge is levied.

Despite having a showroom and warehouse in Adelaide, Tasman advised that it will not sell direct to the public and will instead inform the customer of the sales process

[customer service strategy].

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5.2.3 Invoicing and Delivery

Tasman transports its goods by road from one of its using an external freight provider.	distribution centres,
Tasman advised the goods are delivered to mainland an order being placed, with regional centres taking a	d cities within hours of hours of hours.
Tasman advised that some customers prefer the	[customer
5.2.4 Payment and delivery terms	
Tasman advised orders are delivered on a	[delivery terms]
Tasman advised that Exercises customers have which were in evidence on analysis of selected invoi	credit terms, ces (see below).
Statements are sent to customers reque	esting payment

5.3 Pricing

Tasman advised that **Example** [pricing strategy] pricing for deep drawn stainless steel sinks is the Oliveri Price List that is made available to customers.

The current price list is effective from 1 September 2013. A copy of the price list was provided at the verification visit, as was the previous price list, which was effective from 30 November 2011. Tasman advised that the 2013 price list was introduced when a price increase was implemented.

These price lists form Confidential Attachment SALES 1.

The price list details the model number for each sink within a range, its configuration and dimensions, accessories included and the price. The price list also contains prices for accessories and taps sold independently.

[pricing strategy].

We observe the following key points from Tasman's price lists:

- within a product range, the higher the number of bowls, the higher the price, although the difference between bowl pricing is not standard across the range. For example, the price difference between a Monet 1³/₄ bowl sink and double bowl sink is approximately **account**, while the difference between the same bowl configuration in the Diaz range is approximately **account**;
- sinks with two drainer boards are higher in price than sinks with single drainer boards in the same range. As with bowl number, the price difference is not consistent throughout ranges;
- there is a notable price difference across product ranges and product tiers; and

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• undermount and top mount sinks of the same configuration (e.g. double bowl) appear to have the same price within a range.

5.3.1 Pricing with accessories

As discussed above, the data provided by Tasman in its Confidential Appendix A4 shows the revenue of sales of sinks when sold on their own or in a pack and does not separate the revenue for the sink component of sinks sold in packs.

We noted that accessories and taps are individually priced within its provided price lists (Confidential Attachment SALES 1) and queried whether the value of the sink would be determined by removing the listed accessories or taps value from the total revenue.

Aside from Tasman's **contraction** [pricing] structure (discussed below), which means that the list price does not result in the final net price in any case, Tasman explained that when pricing sinks sold in packs it is not a matter of summing the individual price of a sink plus each individual accessory.

[cost strategy]. Although the accessories do contribute to the price it is not in a way proportionate to if they were sold individually.

We were unable to test this within Tasman's price listing because there were no examples of the exact same sink being offered with and without accessories.

5.3.2 [pricing mechanisms]

[pricing mechanism]

Tasman advised that the final invoice price negotiated with customers is achieved through the application of **[advised of [**pricing mechanism] to the list price, which are determined by competitive factors driving the market such as the price of imported goods.

[pricing strategy].

At the verification, Tasman provided copies of five **Confidential Attachment SALES 2**.

We observed within these [documents] that:

- generally, a percentage is listed against specific model codes or in some cases for 'all Oliveri sinks' and an agreed net unit price is shown;
- the [documents] cover sinks as well as accessories and taps;
- the factor [factor] listed on the factor [document], when applied to the list price (within Confidential Attachment SALES 1), arrives at the unit price listed on the factor [document] as the agreed price;
- each [document] is in operation for a short period of time (months); and
- each [document] allows for alterations to the agreed price if [pricing mechanism].

[pricing strategy]. PUBLIC RECORD



[pricing mechanism].

[Pricing mechanism] are formalised in trading agreements with its customers, of which Tasman provided two versions during its verification (**Confidential Attachment SALES 3**).

Our verification of Tasman's [pricing mechanisms] are discussed later in this chapter.

5.4 Level of trade, related and unrelated customers

Tasman explained that it is a wholesale manufacturer and sells to a network of national and regional distributors. Tasman advised that it considers distributors to all be at the same level of trade.

Tasman explained that in terms of domestic sales it does not differentiate between related and unrelated customers.



5.5 Verification of sales data to audited accounts

As discussed above, Tasman's Appendix A4 domestic sales listing included sales of <u>all</u> of Tasman's sinks during the period July 2012 – December 2013 inclusive. This consists of sales of:

- deep drawn stainless steel sinks manufactured by Tasman;
- deep drawn stainless steel imported and on-sold by Tasman;
- fabricated sinks imported and on-sold by Tasman; and

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• seconds (damaged sinks).

To demonstrate the completeness and relevance of the Appendix A4 sales listing, Tasman provided a *Sinks data* workbook that included 2013 calendar year (investigation period) sales summary reports by material code (product code) generated from SAP for:

- domestic sales of all sink types (i.e. deep drawn stainless steel sinks manufactured by Tasman, deep drawn stainless steel sinks imported and on-sold by Tasman, and imported fabricated sinks imported and on-sold by Tasman); and
- export sales of all sink types.

This listing did not include sales of 'accessories' or 'taps', the other two categories of products sold by Tasman.

We observed how Tasman generated these sales summaries in SAP by limiting its queries to sinks sales, the correct data periods, and domestic or export sales.

The Sink data workbook forms Confidential Attachment SALES 4.

The sales summaries in the *Sink data* workbook showed total sales quantity and net revenue by material code, and included the product 'description' that corresponded to that code (matching the description format seen in the Appendix A4 sales listing). It also identified whether the product code related to a sale of:

- domestically-produced goods (i.e. deep drawn stainless steel sink, as this (and combined accessories) are the only products that Tasman manufactures that it sells);
- imported goods (i.e. Elan or Genesis deep drawn stainless steel sinks, or fabricated sinks); or
- seconds (small volumes of damaged goods sold).

Tasman demonstrated how this categorisation was generated manually, with reference to the product code and description. We observed this categorisation to be accurate.²

By filtering the Confidential Appendix A4 domestic sales listing to 2013 and by sink type, we were able to observe how the net revenue and volume (in units) of each category of sinks in the Confidential Appendix A4 matched to the domestic SAP sales summary in the *Sinks data* workbook when filtered on the same categories.³

We summed the total net revenue and volume (in units) of the 2013 domestic *Sinks data* sales summary with the total of the export SAP sales summary in the *Sinks data* workbook to arrive at a total revenue (export and domestic) for all types of sinks for 2013.

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² For example, deep drawn stainless steel sinks with a description beginning with 'EL' (Elan) or 'GN' (Genesis) were identified as imports, while 'NP' (Nu Petite), 'DZ' (Diaz), 'MO' (Monet) deep drawn stainless steel sinks manufactured by Tasman were correctly identified as domestically-produced goods.

³ Deep drawn stainless steel sinks manufactured by Tasman or imported and on-sold by Tasman, fabricated sinks imported and onsold by Tasman, and seconds

Tasman explained that, to arrive at its company-wide total revenue figure, revenue for taps, accessories sold individually and revenue generated for sales of scrap made during the manufacturing process must be summed to the sinks revenue figure.

To do so, we observed Tasman generate revenue reports from SAP for revenue of accessories (which includes scrap revenue) and taps, showing annual sales revenue and volume for each calendar year from 2009 to 2014 (year to date).

These reports form Confidential Attachment SALES 5.

We summed the total revenue for taps and accessories (including scrap) to the total revenue for sink calculated above, to arrive at a total revenue figure for Tasman for calendar year 2013. We were then able to trace this to Tasman's net revenue figure for calendar year 2013 within its company-wide profit and loss statement in SAP⁴ (**Confidential Attachment SALES 6**), allowing for minor amendments for [pricing mechanism] over and under-accrued across accounting periods (SAP reports demonstrating these accruals form **Confidential Attachment SALES 7**).

We asked Tasman how company-level revenue in SAP could be traced to Fletcher Building's most recent consolidated audited financial statements (FY2013). Tasman explained that for its corporate reporting it submits information to the Fletcher Building Group via **Explanation** [process] a reporting program known as Essbase, which then feeds into the Fletcher Building Group's Hyperion system, which is then audited and reported on in the group's annual report.

Tasman explained that it does not have full access to the Hyperion system, or the Essbase input data of the other Fletcher Building Group companies, to be able to directly demonstrate how its revenue consolidates into the group total in the audited accounts.

We observed the Essbase system and were provided with a printout of the management input screen for the months July 2012 – June 2013 as an example (**Confidential Attachment SALES 8**), as well as copies of Essbase statement of earnings reports (profit and loss statement) for FY2013 and the six month periods of July-December 2012 and 2013 to allow for calculation of figures for the calendar year 2013. These reports form **Confidential Attachment SALES 9**.

We were able to trace the 2013 net revenue figures report in the SAP profit and loss statements directly to the Essbase reports. At the same time, we were able to trace the reported earnings before interest and tax (EBIT) figure in the SAP profit and loss statement to Essbase (to assist in the verification of Tasman's costs, discussed further in Section 6.2).

Tasman demonstrated the access it has to Hyperion, whereby it was able to access its own profit and loss statement in the system (**Confidential Attachment SALES 10**). We noted this Hyperion statement directly reconciled to the SAP profit and loss statement at both the net revenue and EBIT levels.

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⁴ Derived from the FY 2013 and six month statements to July 2013 and December 2013 in SAP.

Tasman also provided an email from the Fletcher Building Group Performance Manager confirming that the information input by Tasman into Hyperion (via Essbase) was aggregated into the group data for Fletcher Building Group reporting (**Confidential Attachment SALES 11**).

Tasman provided a copy of the Fletcher Building Group's FY 2013 annual report and audited financial statements (**Non-Confidential Attachment SALES 12**). We observed that Tasman is listed in this report as a principal operation of the Fletcher Building Group.

We also observed the auditor's unqualified statement in relation to the financial reports that they have audited the group's accounts, comprising of Fletcher Building and its subsidiaries, and the accounts represent a true and fair position of Fletcher Building and the Fletcher Building Group as at 30 June 2013 and the financial performance of those entities for FY2013.

5.5.1 Completeness and relevance of sales data - conclusion

Having regard to the above, we consider that the Appendix A4 sales data provided represents complete and relevant accounts of all sales of all types of sinks sold by Tasman during the period from 1 July 2012 to 31 December 2013 (18 months including the investigation period of 1 January – 31 December 2013).

5.6 Verification of sales data to source documents

To assess the Confidential Appendix A4 sales data for accuracy, verification to source documents was undertaken.

Prior to the verification visit, the Commission selected twelve sales from the submitted sales listing; these are outlined in the table below.

All of these sales were of deep drawn stainless steel sinks (no fabricated sinks included in the selection).

Customer Name			Invoice Number		ber	Invoice Date		9	Manufactured by Tasman or imported?
									Manufactured
									Manufactured
									Manufactured
									Manufactured
									Manufactured
									Manufactured
									Manufactured
									Manufactured
									Manufactured
									Imported
									Imported
									Imported

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The selected transactions covered various quarters, products, discounts, rebates and customers within the investigation period. We advised Tasman that we required supporting documentation for each selected sale.

In reference to the selected sales, Tasman provided:

- tax invoices;
- order acknowledgements;
- delivery notes;
- despatch notices;
- SAP screen-shots, evidencing payment into the SAP account;
- remittance advices;
- bank statements; and
- credit adjustments notes.

These source documents form **Confidential Attachment SALES 13**.

5.6.1 Invoice and general sales details

We noted that the despatch notices contained detailed product information, including the product code and description. Combined with the commercial invoice, we were able to reconcile product and transaction details reported in the detailed sales spreadsheet at Appendix A4, including:

- invoice date;
- customer name;
- product code and description (including bowl number) which itself confirmed whether the goods were imported or manufactured by Tasman by reference to the range name;⁵
- sales volume (in units);
- gross invoice value (i.e. list price); and
- [pricing mechanism].

To verify the net sales price listed in the Appendix A4, we must take account

, [pricing strategy] discussed below.

We observed that the payment terms listed in the Confidential Appendix A4 were not shown anywhere on the sales invoices or other provided source documents, nor was a due date for each invoice. To demonstrate the payment terms listed in the Confidential Appendix A4, Tasman provided a master listing downloaded from SAP showing applicable accounts receivable codes and their associated payment terms (**Confidential Attachment SALES 14**). We were able to trace these codes to the Confidential Appendix A4 and observed the payment terms were reported correctly.

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⁵ As the Elan and Genesis ranges are imported and all other range names are manufactured by Tasman (see Section 4.4)

5.6.2 Proof of payment and settlement discount

Tasman provided evidence from SAP of funds being credited to its account for the selected invoices, as well as remittance advices from their customers.

For each invoice we observed that the remittance advice reconciled with the amount credited to Tasman's account in a provided bank statement/document.

In cases where the **Confidential Appendix A4 listing**, we observed that the invoice amount less % was being paid by Tasman's customers, where

[circumstance]

5.6.3 [pricing mechanism]

Tasman advised that when **Example** [pricing mechanism] it generates a credit for each customer. These credits are summarised in a monthly, quarterly, half yearly or annual (depending on customer terms) credit adjustment note. Tasman provided a copy of the credit adjustment containing the **Example 1** [pricing mechanism] relating to each invoice as well as a copy of a customer [pricing mechanism] allocation spreadsheet it maintains for each customer.

We verified that the credit notes reconciled with the allocation spreadsheet and traced the [pricing mechanism] back to the Appendix A4 sales listing.

5.6.4 Accuracy of sales data - conclusion

Having regard to the above, we consider the Confidential Appendix A4 sales data provided is an accurate account of the sales of all sinks, including deep drawn stainless steel sinks, during the period from 1 July 2012 to 31 December 2013 (18 months including the investigation period of 1 January – 31 December 2013). We are satisfied that Tasman's customers are paying the net invoiced amount due

, [pricing mechanism] arriving at the final net

price incurred.

5.7 Export sales

Tasman makes export sales of deep drawn stainless steel sinks to the

[countries], which account for approximately of total sales volume and for total sales value of Tasman's manufactured deep drawn stainless steel sinks in the investigation period.

. [export strategy]

5.8 Sales – conclusion

We consider that Tasman's sales data in Confidential Appendix A4 is a complete, relevant and accurate reflection of the sales of all sinks, including deep drawn stainless steel sinks, made during the period 1 July 2012 to 31 December 2013.

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Accordingly, we consider Tasman's sales data in Confidential Appendix A4 (when filtered on product and date accordingly) is suitable for analysing the economic performance of its operations during the investigation period of 1 January 2013 to 31 December 2013.

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6 COST TO MAKE AND SELL

6.1 General

In Confidential Appendices A6.1 and A6.2 to its application, Tasman provided cost to make and sell (CTMS) data by financial year for the period from July 2009 to June 2013 (in Appendix A6.1 for domestic costs and Appendix A6.2 for export CTMS). It presented the data in the form of yearly total amounts, and amounts per unit (i.e. per sink).

This data was provided separately for all manufactured deep drawn stainless steel sinks in aggregate and then broken down into CTMS by bowl number (e.g. single bowl, bowl + $\frac{1}{2}$ bowl, bowl + $\frac{3}{4}$ bowl, etc.). A discussion of the accuracy and reliability of bowl number CTMS is below.

Following initiation of the investigation (during which the investigation period was established as 1 January – 31 December 2013), Tasman provided CTMS calculations for the following periods:

- July December 2013 (Q1-Q4 FY2013);
- January December 2013 (the investigation period); and
- January December 2009.

This ensured that CTMS had been provided separately for the investigation period and from the start of the injury analysis period (from January 2009). These CTMS calculations form **Confidential Appendix 2**.

Our verification focussed on the investigation period data.

We sought to trace the CTMS data that was submitted up through management reports to audited financial statements to establish confidence in the completeness and relevance of the data. We also sought to trace the cost data to source documents to establish confidence in the accuracy of the data.

6.1.1 Categorisation of data

The Tasman CTMS data was broadly categorised and presented as:

- raw materials;
- direct labour;
- variable manufacturing overheads;
- fixed manufacturing overheads;
- depreciation;
- packaging costs; and

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• selling, distribution, administration, and other expenses.

6.1.2 Arriving at unit costs

We noted that Tasman's approach to calculating the unit cost to make (CTM) was to use total actual costs of goods manufactured, and divide this by the total sales volume of manufactured sinks for the period. We queried the accuracy of this and Tasman explained that it was not able to produce accurate records of production volumes as it does not record 'production' output in units from its factory, but these recorded units can mean any one of the following items:

- making a complete deep drawn stainless steel sink;
- repackaging of an imported fabricated sink (performing quality assurance, adding accessories and re-boxing/labelling);
- repacking of a sink into a sink/tap pack (adding accessories/taps and re-boxing/labelling); or
- re-working a second or damaged sink into a saleable unit and re-packaging

Consequently, Tasman advised that it considers that it is more accurate to use sales volume of manufactured deep drawn stainless steel sinks to arrive at unit CTMS for those products.

Tasman explained that it considers that sales volumes are likely to be very similar to production volumes in any case.

To test this assumption, we compared the recorded units produced in the provided 'Production analysis' spreadsheet for the period mid-December 2013 to mid-December 2013 (data was not provided in even full-month periods) to Tasman's sales volume figures for manufactured deep drawn stainless steel sinks in calendar year 2013. This analysis supported Tasman's explanation above regarding its recorded production volumes and the likelihood that production of deep drawn stainless steel sinks would be roughly equivalent to sales volume.

In light of the above, we consider that Tasman's approach of using sales volumes to arrive at unit production costs is reasonable in the circumstances.

The 'Production analysis' spreadsheet is discussed further at Section 7.7.2.

In terms of calculating unit cost to sell (CTS), Tasman's approach was to use the aggregate selling, distribution, finance and other costs and divide by the sales volume. We discussed the accuracy of this with Tasman and determined that sales value would be a more reasonable method of allocating selling, general and administration expenses. This is discussed further below.

Verification of the total sales volume is discussed in the domestic sales section of this report where domestic sales, when considered in aggregate with all other sales, were reconciled to SAP, which was then traced to the audited Hyperion system (see Section 5.5).

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6.1.3 Costs by bowl number

As mentioned above, Tasman provided CTMS data for all sinks in aggregate as well as calculations of CTMS by bowl number.

During the Commission's consideration of Tasman's application the Commission observed that these bowl number-level calculations were derived simply by dividing the aggregate costs reported by Tasman for all sinks by total sales volume then multiplying this by the sales volume of each type of sink (by bowl number). This is in contrast to reporting the actual costs incurred in the manufacture of each type of sink.

At the consideration stage, Tasman explained that it does not record costs by product type and only records costs at an aggregate (all product level). Tasman therefore agreed that the product-level cost data provided in the application does not reflect the actual CTM of each sink by type.

The Commission notes this places limitations on certain analysis of the economic condition of Tasman, as discussed in Chapter 7 of this report.

6.2 Verification of total costs to audited financial statements

We asked Tasman to demonstrate how its submitted CTMS can be traced to its SAP profit and loss statement, noting that this statement has been traced to the consolidated Fletcher Building Group accounts via Essbase and Hyperion at the EBIT level (see Section 5.5).

We summed the total CTM and CTS elements in the submitted Appendices A6.1 and A6.2, and observed how these totals reconciled directly to the SAP profit and loss statement, with no costs excluded from the A6.1 and A6.2 total.

We observed how these total costs were split between Appendix A6.1 and A6.2 by attributing the total pool costs to domestic or export sales based on sales volume.

As discussed above, the total pools of CTM and CTS in the Appendix A6.1 and A6.2 were divided into unit costs per sink by dividing the total pool of costs by the total sales value (verified in Chapter 5).

However, in performing the above-described reconciliation to SAP, we found some matters that we considered should be amended in Tasman's Appendix A6.1 and A6.2 CTMS calculations to more reasonably and accurately reflect Tasman's CTMS deep drawn stainless steel sinks. These are discussed below.

Tasman submitted revised Appendices A6.1 and A6.2 including the below amendments, which form **Confidential Appendix 3**.

6.2.1 Removal of scrap revenue

We observed that Tasman had not made any allowance in its raw material costs to offset for revenue received through the sales of scrap stainless steel (a by-product of the production process).

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Tasman agreed that it would be reasonable to deduct scrap revenue from the total raw materials CTM pool to offset its incurred raw materials cost.

Tasman amended its CTM calculations to remove the revenue gained from sales of scrap in each applicable CTMS period. We were able to verify the total value of scrap revenue used as an offset for calendar year 2013 to a SAP report for scrap sales revenue as well as to source invoices for sales of three examples of scrap during the selected period (**Confidential Attachment CTMS 1**).

6.2.2 Selling, general and administrative costs

As discussed above, in performing our reconciliation of selling, general and administrative costs to SAP as discussed above, we observed that Tasman had taken the total general ledger amounts for selling, general and administrative expenses and allocated them evenly across all product groups based on sales volumes in units, to arrive at an allocation of a proportion of these costs to manufactured deep drawn stainless steel sinks.

We discussed the reasonableness of this allocation with Tasman, noting that it was evenly allocating these costs across all products, whether they be a higher-value sink (the company's core business) or a low-value accessory like a chopping board (more of an ancillary product to the core business).

Tasman agreed that it would be more reasonable to re-allocate these costs based on revenue, and performed this re-calculation. In doing so, Tasman removed the revenue generated from sales of scrap (discussed and verified above) from the total company revenue used to apportion selling, general and administrative expenses because scrap is a by-product of the production process and not a core function or true product of the business.

We followed this re-calculation and considered it to be reasonable and accurate.

6.2.3 Removal of purchased goods costs

In performing our reconciliation of Appendix A6.1 and A6.2 to SAP, we observed that <u>all</u> of Tasman's materials costs were included in its total pool of raw material costs that were then apportioned to manufactured deep drawn stainless steel sinks by sales volume.

We examined each material cost and identified that these costs included the costs incurred by Tasman for the purchase of:

- fully imported deep drawn stainless steel sinks; and
- taps.

We therefore noted that the submitted Appendix A6.1 and A6.2 contained irrelevant raw material costs.

We explained to Tasman that these costs should not reasonably be included in Tasman's CTM manufacture deep drawn stainless steel sinks because they are not attributable to the goods. Tasman agreed that these costs should not be included in the pool of CTM attributed to the manufacture of deep drawn stainless steel sinks.

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We observed that costs associated with the purchase of fabricated sinks were not included in the pool of CTM (which is correct).

To correct this error, Tasman explained that it would need to remove the value of imported deep drawn stainless steel sinks and taps from its raw material costs. However, Tasman highlighted that this was not as simple as removing the general ledger item for these materials because this general ledger item in fact records the total cost of <u>purchases</u> of these materials and not the value of <u>consumption</u>.

To arrive at the value of consumed materials in any given period, Tasman must add the value of opening inventory and deduct the value of closing inventory to the purchases amount.

Tasman explained that this was further complicated by the fact that its accounting system records the value of inventory for several materials (including stainless steel for use in manufacturing, imported stainless steel sinks, taps and accessories) collectively and hence identification of the opening and closing inventory value of imported deep drawn stainless steel sinks and taps would need to be determined by reference to stocktake records.

Tasman explained that this would be difficult due to the limitations of its stocktake records, which it did not have electronically on file for the majority of the Appendix A6.1 and A6.2 period.

Tasman proposed that it undertake a calculation of opening and closing stock values based on assumptions relating to electronic stocktake figures it had on file for more recent stocktakes and applying this assumption across the Appendix A6.1 and A6.2 period.

Tasman re-submitted its Appendix A6.1 and A6.2 with its raw material calculations reduced by:

- removing the purchase value of taps and imported deep drawn stainless steel sinks as listed in the general ledger; and
- accounting for the value of opening and closing inventory based on Tasman's calculated opening and closing inventory values.

Tasman determined the value of opening and closing stock of imported sinks and taps by:

- calculating what percentage of the value of <u>total closing inventory</u> is attributed to the value of taps or imported sinks during the period January – June 2013 using actual stocktake data for that period (
- assuming this percentage applies throughout the CTMS periods (e.g. the value of the closing inventory for taps in FY2010 has been calculated as for the total closing inventory for the whole company for that period).

Tasman provided stocktake data and closing inventory figures for the period January – June 2013 to support the percentage of total inventory calculation.

Tasman also provided stocktake figures for July – December 2013, and undertook the same calculation of taps and imported sinks closing inventory value as a percentage of **PUBLIC RECORD**

total closing inventory value, which arrived at reasonably similar results to the calculation performed for January – June 2013.

We selected various inventory values shown in Tasman's calculations for verification, and Tasman provided its source 'Stock take count' records to demonstrate these figures (**Confidential Attachment CTMS 2**).

We observed how this calculation was undertaken in Tasman's revised CTMS calculations and are satisfied with the accuracy of the calculations.

However, the visit team has assessed the reasonableness of the approach undertaken by Tasman in removing the materials costs of imported deep drawn stainless steel sinks and taps discussed above, in particular, Tasman's approach to calculating the opening and closing inventory value of those materials.

While the reason for Tasman adopting this approach and the limitations of Tasman's data is understood, we consider that this approach may in fact not arrive at raw material costs that are reasonably complete and relevant in relation to Tasman's manufactured stainless steel sinks.

One concern is that the inventory value percentage of total inventory is determined with reference to a recent period of time and this is applied to the entire CTM period (beginning July 2008). As it is understood that Tasman's approach to importing some of its range of sinks has increased in more recent years, and it has widened its range of taps recently as well, it seems unreasonable to assume that the same percentage of inventory valuation applies over the whole CTMS period (i.e. it is likely that the earlier periods had significantly less inventory of imported goods than the later periods).

Further, it is noted that Tasman's calculations result in reductions of raw material costs of between **and material**, which, at least at the top of this range, seems likely to be substantially overstated (noting that the sale of imported taps and sinks and taps are not the key function of the business, with revenue for imports accounting for only of total revenue in calendar year 2013).

In light of the above, it is considered that, for the purposes of this visit report, the verification team considers that it <u>cannot</u> be satisfied with the reasonableness of Tasman's raw material costs, and hence its submitted CTM in general. However, the verification team notes that it has verified the inventory value used to reduce Tasman's CTM for January – June 2013 and also that this is reasonable for use to reduce Tasman's CTM for July – December 2013 as the calculation undertaken for both 6-month periods generates reasonably similar results, and therefore we can be satisfied with the reasonableness of Tasman's CTM for calendar year 2013 alone.

6.2.4 Conclusion

Having regard to the above, we consider that the Tasman's revised Appendices A6.1 and A6.2 data contained in Confidential Appendix 3 to this report <u>do not</u> represent reasonably complete and relevant accounts of the fully absorbed <u>costs to manufacture</u> deep drawn stainless steel sinks during the following periods:

• calendar year 2009;

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- FY 2009 2013; and
- Q1-Q2 FY2014.

The verification team notes that this conclusion is drawn due to the approach to removing the cost of imported deep drawn stainless steel sinks and taps and that the visit team is otherwise satisfied as to the completeness and relevance of the revised calculations (noting that if a more reasonable method can be undertaken a later stage, the Case Management team may be satisfied with the completeness and relevance of Tasman's CTMS calculations).

However, we consider that Tasman's revised appendices A6.1 and A6.2 <u>do</u> represent reasonably complete and relevant accounts of the fully absorbed <u>costs to sell</u> deep drawn stainless steel sinks in the abovementioned periods.

Despite this, we consider that the Tasman's revised Appendices A6.1 and A6.2 data contained in Confidential Appendix 3 to this report for the period of calendar year 2013 (the investigation period) <u>do</u> represent reasonably complete and relevant accounts of the fully absorbed <u>costs to manufacture</u> deep drawn stainless steel sinks during that period.

6.3 Verification of production costs to source documents

In terms of the production costs, we asked Tasman to demonstrate the links between the CTMS data contained in the Appendix A6 data and source documents. We selected the following cost components for this verification:

- cold rolled stainless steel;
- plugs and waste; and
- depreciation.

6.3.1 Cold rolled stainless steel

Tasman provided a SAP printout of all purchases of cold rolled stainless steel during FY2013. This forms **Confidential Attachment CTMS 3**.

As discussed previously, Tasman's general ledger accounts for inputs consumed by recording purchases under one code, then accounting for opening and closing stocks and work in progress separately. Consequently, we were able to directly match the purchases listing to the cold rolled stainless steel purchases total in the FY2013 profit and loss statement for this input (identified as 'S/Steel Other).

We selected three purchases from this listing and Tasman provided invoices, remittance advices and proof of payment for each (**Confidential Attachment CTMS4**).

6.3.2 Plugs and waste

As with cold rolled stainless steel, Tasman provided a SAP purchases listing for plugs and waste for FY 2013 that was able to be directly reconciled to the FY2013 SAP profit and loss statement. This forms **Confidential Attachment CTMS 5**.

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We selected two purchases of these inputs from this listing, and were provided invoices, remittance advices and proof of payment for each (**Confidential Attachment CTMS 6**).

6.3.3 Depreciation

We asked Tasman to provide evidence to support its calculation of depreciation expenses.

Tasman provided an electronic copy of its fixed assets register with depreciation data for the period July – December 2013, which was downloaded from SAP (**Confidential Attachment CTMS 7**).

In addition, Tasman provided a copy of the Essbase profit and loss statement for July – December 2013 (**Confidential Attachment CTMS 8**). As discussed above, we have successfully verified:

- Essbase to Tasman's SAP profit and loss statement (see Section 5.5); and
- the Appendix A6.1 and A6.2 CTMS to the SAP profit and loss statement as well (see Section 6.2).

We observed in Essbase profit and loss statement that depreciation was separated into production and non-production figures. We were able to successfully filter the provided fixed assets register to cost centre codes to isolate depreciation of production assets for this period, and depreciation for all other assets, which reconciled directly to the Essbase profit and loss statement.

6.3.4 Conclusion

Having regard to all of the above, we consider that the costs recorded in Tasman's accounts and reflected in their Appendix A6.1 and A6.2 accurately record the incurred purchase costs of materials and production overheads.

6.4 Costs to make and sell – conclusion

We consider that the data in Tasman's revised Appendix A6.1 and A6.2 is a reasonably complete, relevant and accurate reflection of Tasman's CTMS for deep drawn stainless steel sinks during calendar year 2013.

However, we consider that Tasman's CTMS in the revised Appendix A6.1 and A6.2 are <u>not</u> a reasonably complete, relevant and accurate reflection of the CTMS deep drawn stainless steel sinks during the following periods:

- calendar year 2009;
- FY 2009 2013; and
- Q1-Q2 FY2014.

Accordingly, we consider the Tasman CTMS in Appendix A6 is <u>not suitable</u> for analysing the economic performance of its deep drawn stainless steel sinks operations over the period FY2009 to calendar year 2013.

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7 ECONOMIC CONDITION

7.1 Applicant's injury claims

In its application, Tasman submitted that it (the sole Australian industry member) has suffered material injury caused by deep drawn stainless steel sinks exported to Australia from China at dumped and subsidised prices. The application claimed the industry has been injured through:

- lost sales volumes;
- reduced market share;
- price depression;
- price suppression;
- loss of profits and profitability;
- reduced capacity utilisation; and
- reduced employment numbers and wages.

7.2 Commencement of injury, and analysis period

Tasman's application submitted that material injury caused by dumped and subsidised imports of deep drawn stainless steel sinks from China commenced in the 2010 financial year when Chinese imports increased in volume by 30.8% from the previous year and the market share of dumped and subsidised exports grew by 12% over the same period. In this same period the market share held by the Australian industry declined by 20%.

The Commission will examine the Australian market and the economic condition of the Australian industry from 1 January 2009 for the purposes of its injury analysis.

7.3 Approach to injury analysis and data limitations

The injury analysis detailed in this section is based on:

- Tasman's verified sales data (Chapter 5);
- Tasman's other injury factors data discussed below;
- Australian Bureau of Statistics (ABS) import data provided in Tasman's application for FY2009 – FY2013; and
- data from ACBPS' import database for calendar year 2013.

As discussed in Section 6.4, we do <u>not</u> consider Tasman's Appendix A6.1 and 6.2 data is suitable for analysing the economic performance of its manufactured deep drawn stainless steel sinks during these periods, and this CTMS data has not been used in the analysis in the Chapter.

In addition, we consider that there are limitations with the sales data provided by Tasman that place restrictions on the conclusions that can reasonably be drawn in relation to price depression for the purposes of this report (noting that issues with price suppression already exist due to the limitations of Tasman's CTMS data, though this issue would likely similarly impact price depression analysis otherwise).

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As discussed in Section 5.1.2, Tasman's sales data for periods other than that covered by the detailed Appendix A4 sales listing (July 2012 – December 2013) was provided on aggregate for sales by bowl number (volume and value), but did not differentiate exact models or ranges within model (and hence market segments (or product tiers) of good [entry-level] or better [mid-range] products) or other product characteristics. The Commission considers this impacts its ability to perform an accurate assessment of price depression, discussed further in Section 7.5.1 of this Chapter.

Before adopting the ABS data supplied by Tasman in the below analysis, the Commission has undertaken a successful assessment of its reasonableness with reference to import data obtained directly from ACBPS (detailed in the Consideration Report for this investigation (CON 238) at Section 4.4.2).

7.4 Volume trends

Tasman submits that it has suffered material injury in relation to loss of sales volume and market share.

7.4.1 Sales Volume

Figure 2 below depicts Tasman's total sales volume of its manufactured deep drawn stainless steel sinks on the Australian market during the FY2009 – FY2013, and calendar year 2013.



Figure 2 – **Tasman's manufactured deep drawn stainless steel sinks domestic sales volume** Note: as with Figure 1, the last period in Figure 2 is calendar year 2013; while the other periods are financial years (overlap exists between the 2013 calendar year and FY2013).

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Figure 3 below shows Tasman's sales volume by product (bowl number) over the same period. As with Figure 2, the periods shown are a combination of calendar and financial year (and hence some overlap between periods exists).



Figure 3 – Tasman's manufactured deep drawn stainless steel sinks domestic sales volume (bowl number)

Figure 2 indicates that Tasman's overall domestic sales volume has steadily decreased year-on-year since FY2009.

Figure 3 shows a similar trend in relation to volume by bowl number as that seen for volume on aggregate in Figure 2, except for double bowl sinks, which saw an increase in sales volume from FY2009 – FY2010, before declining year-on-year after FY2010.

To further demonstrate the trends seen in Figure 3, Figure 4 below depicts an index of changes in Tasman's sales volume by product (bowl number) on the Australian market from FY2009 – calendar year 2013.

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	FY2009	FY2010	FY2011	FY2012	FY2013	Calendar year 2013
Single Bowl	100%	91%	79%	63%	<mark>53%</mark>	48%
Double Bowl	100%	108%	104%	95%	<mark>82%</mark>	79%
Triple Bowl	100%	33%	0%	33%	0%	0%
Bowl + 1/2 Bowl	100%	91%	83%	70%	62%	59%
Bowl + 3/4 Bowl	100%	91%	73%	53%	41%	39%
Double Bowl + 1/2 Bowl	100%	76%	68%	59%	26%	16%
TOTAL	100%	95%	83%	67%	56%	53%

Figure 4 – Index of changes in applicant's manufactured deep drawn stainless steel sinks domestic sales volume (by bowl number)

7.4.2 Market Share

The following graph depicts changes in market share of sales on the domestic market between Tasman and imports based on Tasman's submitted ABS import data and their own sales data for the period FY2009 – FY2013, and Tasman's own sales data and import data obtained from ACBPS' import database for calendar year 2013.

Note: the final period in Figure 5 is a calendar year period; while the previous periods are financial years (overlap exists between the last two periods depicted).





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Figure 5 shows that the Australian industry's share of the Australian market more than halved over the period FY2009 to calendar year 2013 (from 10% to 4%).

7.4.3 Conclusion – volume effects

Based on this analysis, there appears to be reasonable grounds to support the claim that the Australian industry has lost sales volume and market share during the period calendar year 2009 to calendar year 2013.

7.5 Price suppression and depression

In its application, Tasman claimed that the Australian industry has suffered material injury in the form of price depression and suppression.

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

7.5.1 Price depression

At A-8.2 of its application, Tasman submitted an index of unit price variations by sink type (number of bowls) which Tasman submits provides evidence of price depression in relation to certain products. This index showed numerous price fluctuations over the period FY2009 to FY2013, with four types of sink ending the examined period at a unit price lower than in FY2009, one type of sink above the FY2009 unit price and all sinks in aggregate ending slightly above the FY2009 price.

However, as discussed in Section 5.3, we note that the price of Tasman's selection of deep drawn stainless steel sinks is impacted by more than bowl number, with price differentiations due to product tier, range and number of drainer boards also observed. Consequently, we consider that an accurate assessment of price depression should take into account, as far as possible, these factors that influence price.

As discussed in Section 5.1, the aggregate sales data provided by Tasman for FY2009 – calendar year 2013 is split only by bowl number, and does not allow further differentiation by models (which itself separates products into tiers) or other product characteristics. We therefore consider this data to be of limited use to accurately assessing price depression over this period.

Tasman accepted that there may be some limitation in performing price depression analysis by bowl size, and submitted that price depression analysis can be performed across all deep drawn stainless steel sink produced and sold by the Australian industry across the injury analysis period, as this would represent a weighted average unit sales value of the like goods.

The verification team considers that such analysis is of limited utility, noting the above comments that it considers that a price depression assessment should take into account various factors that are not accounted for at an aggregate bowl number level, or at an aggregate all product level as suggested by Tasman.

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Despite the above-mentioned limitations of Tasman's aggregate sales data from FY2009 – calendar year 2013, we observe that Tasman's Appendix A4 line-by-line sales data for July 2012 – December 2013 does include information as to product range, as well as product code (which takes into account product range and drainer board number).

Consequently, we have undertaken analysis of Tasman's Appendix A4 to observe net unit pricing trends during the period July 2012 – December 13, as outlined below.



Tasman net unit price by model number

Figure 6 – Tasman's unit price by model number – top 15 selling models of manufactured deep drawn sinks

Note: due to the significant number of models sold by Tasman, this analysis was limited to Tasman's top selling domestic manufactured models, which account for over over this period.

Figure 6 shows that, during the period July 2012 – December 2013, Tasman experienced price depression across some of its highest volume selling manufactured models of deep drawn stainless steel sinks. However, Tasman experienced price increases in several models over the same period, as well as relatively stable pricing across other models.

During the verification Tasman explained that it had implemented a list price increase in September 2013.

[pricing strategy] (see Section 5.3), we observe that Figure 6 demonstrates this price increase, with the majority of Tasman's top **PUBLIC RECORD**

15 models by volume increasing in unit net sales price from the July – August 2013 quarter to the September – December 2013 quarter.

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7.5.2 Price suppression

To demonstrate price suppression based on Australian injury data, the Commission will generally undertake a comparison of prices with costs to assess whether, over time, prices have not increased at the same rate as cost increases

As noted above, we consider that Tasman's Appendix A6.1 and A6.1 are not suitable for use in assessing Tasman's economic performance in relation to deep drawn stainless steel sinks. We therefore consider that price suppression analysis cannot be undertaken in this report.

We note that data limitations of Tasman's CTMS data (outlined previously) restrain the ability to accurately assess price suppression (as costs can only be provided on an aggregate and not product-level basis). Consequently, we consider that even if Tasman's CTMS data were to be considered suitable for assessing its economic condition, price suppression analysis through a comparison of costs and sales data may not be useful in any case.

7.5.3 Conclusion – price effects

The Commission is unable to conclude that Tasman has, or has not, experienced price suppression.

Further, we unable to assess whether Tasman has experience price depression from the period beginning January 2009, but have examined available sales data for the period July 2012 – December 2013 and have found evidence of price depression in this period in relation to certain models of Tasman's domestically-manufactured deep drawn stainless steel sinks.

7.6 Profit and profitability

To assess the economic condition of an Australian industry member's profit and profitability in relation to like goods, the Commission will undertake a comparison between prices and costs of like goods.

As noted above, we consider that Tasman's CTMS is not suitable for use in assessing Tasman's economic performance in relation to its manufactured deep drawn stainless steel sinks as a separate product. We therefore consider that both profit and profitability analysis for manufactured deep drawn stainless steel sinks cannot be undertaken in this report.

However, we have been able to successfully assess this profit and profitability at a whole company level, as detailed in the below chart.

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Figure 7 – Tasman's unit price by model number – top 20 selling models

In examining Figure 7, we note that Tasman's sales of manufactured deep drawn stainless steel sinks accounted the majority of its total revenue during the above-charted periods (a weighted average of period) over the period, though this has declined from the period in FY2009 to the period in calendar year 2013). We therefore consider that the profit and profitability of manufactured deep drawn stainless steel sinks is likely to have a significant impact on the overall profit and profitability of the business.

We note that Figure 7 shows an overall improvement in the profit and profitability of the whole of Tasman's operations from FY2009 to calendar year 2013. However, both profit and profitability levels peaked in FY2011, and have experienced an overall decrease since that period, with total profit declining in each period from FY2011 onwards and profitability fluctuating during this period, but ending at levels lower than the FY2011 peak.

7.6.1 Conclusion – profit and profitability

Based on analysis of Tasman's whole company operations, there appears to be reasonable grounds to support the claim that the Australian industry has experienced declines in profit and profitability at the whole company level during the period calendar year 2009 to calendar year 2013.

7.7 Other economic factors

In its application, Tasman completed Appendix A7 (other injury factors) for deep drawn stainless steel sinks for the period FY2009 – FY2013, at an aggregate (all deep drawn stainless steel sinks) level.

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Data provided in Appendix A7 showed reduced:

- capacity utilisation;
- employment numbers and wages; and
- capital investment

over the period.

The data also demonstrated reduced return on investment for Tasman (as a whole company, not split into deep drawn stainless steel sinks and other production) over the period.

We sought to test the accuracy of Tasman's recorded employment numbers, capacity and capacity utilisation figures.

7.7.1 Employment numbers

We asked Tasman to demonstrate the submitted figures for employees involved in the production of deep drawn stainless steel sinks during the period of calendar year 2013 (19 employees).

Tasman provided a FY2014 budget 'headcount' spreadsheet that listed the names, positions and departments of all of Tasman's employees for the FY2014 budget (overlap with calendar year 2013). Tasman demonstrated by filtering this listing that 19 employees were listed as working to the 'manufacturing' function of the business.

The 'headcount' spreadsheet forms Confidential Attachment INJ 1.

7.7.2 Capacity and capacity utilisation

We asked Tasman to verify its capacity and capacity utilisation (i.e. production volume/capacity) figures submitted in its Appendix A7.

Tasman explained that it has no formal capacity figures in terms of sinks per annum for its facility, as capacity will vary greatly depending on the types of sink produced (i.e. single bowl is quicker to make than double bowl).

Instead, Tasman explained that its capacity figures in the Appendix A7 were historical annual figures from a time when the manufacturing facility was operating 3 shifts per day, seven days a week, which is almost the full capacity of the plant (the latest this occurred was in 2003). However, Tasman further advised that the plant's full capacity has likely increased from 2003 due to it installing more automated parts to the production process, but it was not able to quantify these for the Appendix A7 as it had not reached a time of full capacity since implementing these changes (meaning that in the Appendix A7 is understated, and hence the percentage of capacity utilisation overstated).

Tasman provided a 'Production analysis' spreadsheet that listed quarterly production figures for Tasman's factory from May 2002 – March 2014.

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We were able to reconcile the 2003 figures in the Production analysis spreadsheet to the capacity for the plant provided in the Appendix A7 for FY2009 onwards. As discussed in Section 6.1.2, the figures in this spreadsheet <u>do not</u> represent production of manufactured deep drawn stainless steel sinks as Tasman is not able to accurately identify unit production of these sinks separately, due to its practice of amalgamating this production volume with volumes of other work down in the factory (e.g. repacking imported sinks and re-working of sub-standard products/second). However, we consider these figures reasonable for the purposes of estimating production capacity, noting the above statements about 2003 figures being understated due to the increased automation of the plant since that time.

The 'Production analysis' spreadsheet forms Confidential Attachment INJ 2.

7.7.3 Conclusion - other economic factors

We are confident in the accuracy of the submitted Appendix A7 data.

We observed the following trends in the Appendix A7 data provided by Tasman during the period FY2009 – calendar year 2013:

- capacity utilisation halved (from _____);
- the number of employees engaged in making deep drawn stainless steel sinks decreased by
- productivity increased by
- revenue for deep drawn stainless steel sinks decreased by
- capital investment decreased by ;
- the value of production assets used in the manufacture of deep drawn stainless steel sinks decreased by stee
- total wages paid to employees involved in the production of deep drawn stainless steel sinks remained relatively stable, though employment numbers decreased, increasing the average wage per employee.

Tasman did not provide figures to assess return on investment or stock levels.

7.8 Conclusion

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

- lost sales volumes;
- reduced market share;
- price depression:
- reduced profit and profitability at the whole company level;

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

We consider that we are unable to accurately assess price suppression due to the assessment that Tasman's CTMS is not suitable for use in assessing economic condition of Tasman's deep drawn stainless steel sinks.

Analysis of the economic condition of Tasman forms Confidential Appendix 4.

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8 CAUSAL LINK

8.1 Price effects

Tasman submitted that substantial price injury, in the form of price depression and suppression, have been suffered due to consistent price undercutting of its prices and downwards price pressure exerted by Chinese imported deep drawn stainless steel sinks.

Tasman explained that although there may be design, quality and warranty differences between its Australian-made deep drawn stainless steel sinks and Chinese imports, price is the main determining factor for end users when deciding which sink to purchase. In noting this, Tasman explained that the 'lay person' comparing sinks in a show room or hardware store will not know enough about sinks to determine these quality aspects (though design will be observed), while those in the building industry will commonly make decisions based on fit-for purpose and price to maximise their profit on a delivered structure, making price a key determinant in both situations.

8.1.1 Evidence of low Chinese prices and price undercutting

Tasman provide several examples of what it considers to be low-priced Chinese imports competing with Tasman's production, as well as examples of where Tasman's product has directly competed with lower-priced Chinese imported sinks.

These include the following.

- A **provide** brochure (date unknown **Confidential Attachment INJ 3**) showing imported deep drawn stainless steel sinks (presumed to be of Chinese origin) and Tasman-produced sink of similar dimensions and inclusions (specifically a double-bowl undermount sink package), showing the Tasman product as being advertised at a price 69% above one product, and 17% against another.
- A **Constitution** brochure (dated October 2010 **Confidential Attachment INJ 4**) with a similar comparison of Oliveri and allegedly Chinese similar sinks, with the Oliveri branded sink being approximately 40% more expensive than one imported product and 150% more expensive than another advertised allegedly Chinese import.
- Several similar examples to the above catalogue-based evidence were provided with Tasman's <u>application</u> for publication of a dumping duty <u>notice</u>.

•	An email from	(Confidential Attachment INJ 5)	
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These form **Confidential Attachment INJ 6** [further examples of undercutting].

Further assessment of price undercutting will be undertaken throughout the investigation as further pricing evidence becomes available.

8.1.2 **Pressure from customers**

During the verification, Tasman explained that it faces significant price pressure from its customers to compete with imported sinks and to supply sinks to its customers at a price that will achieve a sufficient margin for Tasman's customer when on-selling Tasman's products.



Tasman explained that in many cases it loses sales volume to these customers as it is unable to meet the price point required by the customer. In other cases, it experiences price depression, reducing its prices to secure sales volume.

8.1.3 Inclusion of accessories and impact on price

Tasman explained that imported Chinese sinks are commonly sold in 'packs' including accessories and taps, even in the low tier 'good' product range.

As noted in Section 3.5, Tasman's product offering of lower-tier sinks tends to not include accessories and taps. However, Tasman noted that Tasman's range of these goods is generally priced higher than imported Chinese sinks.

Tasman explained that it has experienced pricing pressure in its lower-tier goods to be lower in price than the Chinese imported sinks with accessories, to compensate for the fact that it does not include the accessories with these low-tier sinks.

8.2 Volume effects

Tasman indicated that the falling sales volumes it has experienced is a reflection of the increase in cheaper priced imported goods being obtained by the Australian end users of deep drawn stainless steel sinks instead of sourcing Tasman products, and displacing sales of Tasman products that the company previously achieved.

Tasman referred to specific examples of certain products and customers losing volume to Chinese imported deep drawn stainless steel sinks, as outlined below.

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8.2.1 LakeLand range

During the verification, Tasman spoke specifically of the marked decrease in sales volume of its LakeLand range of Australian-made sinks, which were previously Tasman's entry-level (i.e. lowest of the **Generation** tier) of deep drawn stainless steel sinks.

Tasman explained that with the increase of Chinese imports of deep drawn stainless steel sinks it found that it could not compete on price with Chinese sinks in a similar product tier to the LakeLand range, which has driven Tasman to source cheaper 'ferture [entry-level] tier sinks from China (the 'Elan' and 'Genesis' ranges). Tasman explained that these Chinese ranges have now replaced the LakeLand sink as the bottom tier of its product offering and that it now considers the LakeLand sink to be situated at the lower end of the 'ferture [mid-range] tier of its product offering.

However, Tasman explained that the introduction of 'Elan' and 'Genesis' sinks in its range have displaced volume of its LakeLand brand within Tasman's sales, in addition to it being displaced by similar '**Genesis'**[entry-level] tier sinks imported from China by Tasman's competitors.

To demonstrate the decrease in sales volume of the LakeLand range, Tasman provided a SAP report showing the aggregate monthly invoice quantity of LakeLand of deep drawn stainless steel sinks (to all customers) from January 2009 – December 2013 (**Confidential Attachment INJ 7**). This report showed a significant decrease in the overall sales volume of this range during the report period.

8.2.2 Loss of volume to specific customers

Tasman highlighted how decisions of specific customers have resulted in a decrease in sales volume to significant customers



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(Confidential Attachment INJ 10)

[loss of volume examples].

8.3 Factors other than dumping

Tasman noted that the exchange rate of the Australian dollar is a crucial factor in profitability of sales to the export market, noting a shift in the exchange rate can have negative effects on individual export sales.

Tasman's application submits that sales on the domestic market are preferred in order to remove this element of instability, which has been increasingly difficult due to the prevalence of Chinese imports which Tasman considers are at prices lower than the advantages of the recent exchange rate would allow.

Tasman also have identified that the global financial crisis (GFC) in 2009 resulted in market volumes decreasing overall, however, Tasman considers that despite the contracting market size at that time, it maintained satisfactory levels of sales and market share.

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9 UNSUPPRESSED SELLING PRICE

Tasman advised the Commission that it would provide a response at a later date with regard to the most appropriate method to calculate the unsuppressed selling price (USP).

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10 GENERAL COMMENTS AND OTHER MATTERS

Other matters of note discussed during the verification are outlined below.

10.1 Import strategy

We queried with Tasman why it has adopted a strategy of importing some of its range as opposed to selling only Australian-manufactured deep drawn stainless steel sinks.

As discussed in Section 8.2.1, Tasman explained that the LakeLand range of sinks was previously considered to be Tasman's primary 'good' tier sink, but Tasman found it was unable to compete with 'good' tier Chinese imports of similar characteristics due to the low price of Chinese goods.

To maintain cash flow and supplier presence, Tasman switched to imported Elan and Genesis sinks from China to enable it to compete in the lower price point entry-level market. Tasman explained that it is important in any sink range to maintain a full market offering (i.e. from 'good' to 'better' and 'best'), and hence removing itself from the 'good' tier was not a viable option.

10.2 Quality, warranty and design characteristics of imports

Tasman noted that, in some cases, the quality of imported deep drawn stainless steel sinks from China is lower than equivalent products manufactured by Tasman. Specifically, Tasman referred to the thickness of the steel used to manufacture deep drawn stainless steel sinks by some Chinese manufacturers (thinner than Tasman), as well as the quality of finish (polishing), quality of accessories and quality of foam seals.

However, as noted above, Tasman explained that the 'lay person' will likely not be able to discern significant differences in quality between Australian and Chinese sinks.

Tasman explained that Chinese imported sinks generally have warranties attached to them, which vary from 12 months (for low-tier/cheaper sinks) to lifetime (comparable to an Oliveri warranty). Tasman explained that it finds that its generous warranty is a selling point that it has over imported sinks with less generous warranty provisions.

In relation to design, Tasman observed that Chinese imported stainless steel sinks compete with Tasman in terms of their design, and hence the design of imported sinks does not necessarily lead to a decision to purchase a Chinese sink over Tasman's production. In observing this, Tasman noted that it has experienced cases where Chinese imported sinks are very similar in design to Tasman's own styles, providing photographs of one model of Tasman sink and a substantially similar imported Chinese sink with the same dimensions, shape and design as the Tasman sink (these form **Confidential Attachment GEN 6**).

Tasman noted that many Chinese manufactures make 'versions' of Oliver-branded sinks that have been developed by Oliveri specifically.

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11 APPENDICES AND ATTACHMENTS

ATTACHMENTS	
Attachment GEN 1	Australian Standard AS/NZS 3679.1
Attachment GEN 2	Tasman (Oliveri brand) 2013 product catalogue
Confidential Attachment GEN 3	'Finire' product brochure
Confidential Attachment GEN 4	Oliveri hierarchy differentiation' presentation
Confidential Attachment GEN 5	'Industry Structure' chart
Confidential Attachment GEN 6	Photograph comparison of Oliveri and Chinese imported sink
Confidential Attachment SALES 1	Oliveri price list
Confidential Attachment SALES 2	agreement examples
Confidential Attachment SALES 3	Examples of customer agreements
Confidential Attachment SALES 4	Sink data workbook
Confidential Attachment SALES 5	SAP taps and accessories revenue reports
Confidential Attachment SALES 6	SAP company-wide profit and loss statement
Confidential Attachment SALES 7	SAP reports demonstrating over and under- accruals of rebates
Confidential Attachment SALES 8	Essbase management input screen for the months July 2012 – June 2012
Confidential Attachment SALES 9	Essbase statement of earnings reports (profit and loss statement) for FY2013, and the six month periods of July-December 2012 and 2013
Confidential Attachment SALES 10	Screen shot of Tasman's access to Hyerprion
Confidential Attachment SALES 11	Email from Fletcher Building Group Performance Manager confirming Tasman's input into Hyperion

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Confidential Attachment SALES 12	Fletcher Building Group's FY 2013 annual report and audited financial statements
Confidential Attachment SALES 13	Source documents for selected domestic sales transactions
Confidential Attachment SALES 14	SAP master listing of applicable accounts receivable codes and their associated payment terms
Confidential Attachment CTMS 1	Evidence of scrap revenue and associated invoices
Confidential Attachment CTMS 2	Stock take count records
Confidential Attachment CTMS 3	SAP printout of all purchases of cold rolled stainless steel during FY2013
Confidential Attachment CTMS 4	Selected invoices and proof of payment for cold rolled stainless steel purchases
Confidential Attachment CTMS 5	SAP purchases listing for plugs and waste for FY 2013
Confidential Attachment CTMS 6	Selected invoices and proof of payment for tap and plug purchases
Confidential Attachment CTMS 7	Fixed assets register with depreciation data for the period July – December 2013
Confidential Attachment CTMS 8	Essbase profit and loss statement for July – December 2013
Confidential Attachment INJ/CL 1	'Headcount' spreadsheet to demonstrate employment numbers
Confidential Attachment INJ/CL 2	'Production analysis' spreadsheet
Confidential Attachment INJ/CL 3	brochure– price comparisons
Confidential Attachment INJ/CL 4	brochure – price comparisons
Confidential Attachment INJ/CL 5	[evidence of undercutting]
Confidential Attachment INJ/CL 6	Various Oliveri internal emails listing sales prices
Confidential Attachment INJ/CL 7	SAP LakeLand volume of sales report

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Confidential Attachment INJ/CL 8	SAP volume of sales report
Confidential Attachment INJ/CL 9	photograph showing Chinese sink range and stock
Confidential Attachment INJ/CL 10	SAP volume of sales report
APPENDICIES	
Confidential Appendix 1	Market size analysis
Confidential Appendix 2	Appendix A6.1 and A6.2
Confidential Appendix 3	Revised appendix A6.1 and A6.2
Confidential Appendix 4	Economic condition of Tasman

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