



INVESTIGATION 219

ALLEGED DUMPING OF POWER TRANSFORMERS EXPORTED FROM CHINA, INDONESIA, KOREA, TAIWAN AND VIETNAM

VISIT REPORT - EXPORTER

SHIHLIN ELECTRIC & ENGINEERING CORP

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THE FINAL POSITION OF ANTI-DUMPING COMMISSION**

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ABBREVIATIONS

\$	Australian dollars
The Act	<i>Customs Act 1901</i>
ADN	Anti-Dumping Notice
The applicant	Wilson Transformer Company Pty Ltd
CFR	Cost and freight
COGS	Cost of goods sold
Commission	Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
EBIT	Earnings before interest and tax
EDITA	Earnings before interest, tax, depreciation and amortisation
FOB	Free On Board
GAAP	Generally accepted accounting principles
NIP	Non-injurious Price
PAD	Preliminary Affirmative Determination
SEF	Statement of Essential Facts
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
the Minister	the Minister for Industry
USP	Unsuppressed Selling Price

1 BACKGROUND AND PURPOSE

1.1 Background

On 8 July 2013, Wilson Transformer Company Pty Ltd (Wilson Transformers) lodged an application requesting that then Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of power transformers exported to Australia from China, Indonesia, Korea, Taiwan, Thailand and Vietnam. A full description of the goods under consideration is included in section 3.1 of this report.

On 29 July 2013, the Commissioner of the Anti-Dumping Commission (the Commission) decided not to reject the applications and initiated investigations into the alleged dumping of power transformers from the nominated countries. Public notification of initiation of the investigation was made in The Australian newspaper on 29 July 2013. Anti-Dumping Notice (ADN) No. 2013/64 provides further details of the investigation and is available on the Commission's website at www.adcommission.gov.au.

Wilson Transformers alleges that the Australian industry has suffered material injury caused by power transformers being exported to Australia from the nominated countries at dumped prices. It claimed that injury commenced with the significant increase in imports in 2007-08.

The application identified Shihlin Electric & Engineering Corp (SEEC) as an exporter of power transformers from Taiwan. A search of Customs and Border Protection's import database (CRE) also indicated that SEEC exported power transformers from Taiwan to Australia during the investigation period.

The Commission wrote to SEEC advising it of the initiation of the investigation, requesting co-operation with the investigation and providing copies of an exporter questionnaire for it to complete. SEEC completed the exporter questionnaire, providing details regarding the company, exports, domestic sales and cost to make and sell (CTMS) power transformers.

1.2 Purpose of visit

The purpose of the visit was to verify information submitted in the Shihlin Electric & Engineering Corp (SEEC) exporter questionnaire response (EQR). The EQR was supported by confidential appendices and attachments, including confidential spread sheets containing sales and costs data requested in the exporter questionnaire. A non-confidential version of the exporter questionnaire response was placed on the public record.

Information verified during the visit has been used to make preliminary assessments regarding:

- like goods;
- who is the exporter and who is the importer; and
- export prices.

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Due to the limitations with SEECs accounting and cost recording systems and the Commission's non acceptance of SEEC's costing methodology in its EQR, costs were not verified during the visit. These issues are discussed later in Chapter 5 of the report.

For the purpose of this report the Commission has not made an assessment regarding SEEC's normal values and dumping margins.

1.3 Meeting details

Company	Shihlin Electric & Engineering Corp
Dates of visit	20 -22 and 25 November 2013

The following were present at various stages of the meetings.

SEEC	Wan-Hsing Wang – Member of the Board John Hsieh – Chief Operations Officer Hsiao Tse Feng – Chief Senior Vice President – Heavy Electric Business Group Joseph Kuo – Vice President - Heavy Electric Business Group Paul Hsu - Vice President – Heavy Electric Export Sales Division Hsieh Cheng Wei – Director – Finance Management Division Lin Cheng-Hwang – Senior Manager – Operation analysis - Finance Management Division Li Ying Tzu – Manager – Accounting Planning Dept. – Finance Management Division Charles Hsueh – Manager Marketing Department – Heavy Electric Export Sales Division Kenneth Chang – Senior Specialist – Heavy Electric Export Sales
SeA	Mario Zhang – Managing Director Gary Liu – Finance & Accounting Manager
Wu & Partners	Po-Chung Lee - Associate Emily Liu - Associate
Corrs Chambers Westgarth	Andrew Percival Special Counsel
Anti-Dumping Commission	John Bracic – Director – Operations 1 Cathy Cole – Supervisor – Operations 1

1.4 Investigation process and timeframes

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

- The investigation period is 1 July 2010 to 30 June 2013.

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- The injury analysis period is from 1 July 2008 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) was made on 20 November 2013.
- Securities will be taken in respect of any interim dumping duty that may become payable in respect of the goods entered for home consumption on or after 27 November 2013.
- The dumping margin calculation for SEEC was based on information provide in SEEC's response to the exporter questionnaire.
- Pending the outcome of this visit if the dumping margin may be revised and the security ad valorem rate amended immediately.
- The initiation notice advised that Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 18 November 2013.

The SEF will set out the facts on which the Anti-Dumping Commissioner (Commissioner) proposes to base his recommendations to Minister for Industry (the Minister).

Due to the complexity of the issues surrounding the investigation the Minister has, under s.269ZHI of the *Customs Act 1901* (the Act) extended the deadline for the publication of the SEF. The SEF will now be placed on the public record no later than 18 March 2014.

- Following receipt and consideration of submissions made in response to the SEF, the Commission will provide its final report and recommendations to the Minister.
- The final report to the Minister is due no later than 30 April 2014.

1.5 Visit report

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

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

We also noted that all information provided would be treated as commercial in confidence.

2 COMPANY INFORMATION

2.1 General

SEEC was founded in 1955. A technical cooperation and affiliation was established with Mitsubishi Electric Japan in 1963. SEEC's Heavy electric high voltage transformer (345kv/500MVA) factory was established in 2000 and in 2011, expanded its capacity to be able to construct power transformers of 345kv/1260 MVA.

SEEC is a listed company on the Taiwan Securities Exchange. SEEC is an advanced technology manufacturer of automobile equipment products, heavy electric products, breaker and switchgear products, factory automation control products, industrial equipment products and digital products.

At the commencement of the visit the company made an introduction presentation. A copy of this presentation is at **confidential attachment GEN 1**.

2.2 Corporate, organisational and ownership structure

SEECs principal shareholders are Mitsubishi Electric Corporation, The Ambassador Hotel Ltd and Chinatrust Commercial Bank Trust Account. SEEC is not a subsidiary of any other companies.

SEEC headquarters are in Taipei. There are five factories and five branch offices in Taiwan, 11 factories and 18 offices in China, two factories in Vietnam and a branch in the USA, Australia and the Philippines.

The company has four major production groups and four supporting groups. The Heavy Electric Business Group includes power transformers, distribution transformers, oil immersion transformers, switchgear and high voltage switchgear and tank fabrication.

Shihlin Electric Australia P/L (SeA) is 100% owned by SEEC.

2.3 Relationship with suppliers and customers

SEEC sells power transformers to unrelated utility and non-utility customers in Taiwan and as part of turnkey projects. [REDACTED]

[REDACTED]. [confidential customer details]

SEEC also advised that [REDACTED] is a related company that is a [REDACTED]. [confidential customer details]

Raw materials and components are sourced from unrelated local and overseas suppliers.

2.4 Accounting structure and details of accounting system

SEECs accounting period is 1 January to 31 December.

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SEEC's accounts are maintained in New Taiwanese dollars (NTD). Export sales are transacted in foreign currencies and converted at the exchange rate published by Taiwan Customs.

The company stated that its accounting practices do not differ in any way from the generally accepted accounting principles (GAAP) in Taiwan.

SEEC's financial accounts are prepared in Chinese and audited by Deloitte Touché Tohmatsu Limited in Taiwan. As part of its EQR the company provided us with an English version of the auditors' report and financial statements, consolidated and unconsolidated, for the first half of 2011, 2011, 2012 and the first half of 2013.

With reference to the consolidated statements for 2012, the auditors' report states that:

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shihlin Electric & Engineering Corp. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

In 2013 Taiwan adopted IFRS whereby publicly listed companies are not required to issue quarterly or half-year audited stand-alone financial reports.

SEEC uses an off the shelf Chinese version of Oracle. Management reports are based on txt files extracted from Oracle, converted to Excel and manipulated with an extensive range of formulae.

At the visit the company provided us with a listing of the general ledger accounts, refer **confidential attachment GEN 2**.

3 THE GOODS UNDER CONSIDERATION AND LIKE GOODS

3.1 The goods

The goods subject of the investigation are liquid dielectric power transformers with power ratings of equal to or greater than 10 MVA (mega volt amperes) and a voltage rating of less than 500kV (kilo volts) whether assembled or unassembled, complete or incomplete.

Incomplete power transformers are subassemblies consisting of the active part and any other parts attached to, imported with or invoiced with the active parts of power transformers. The active part of a power transformer consists of one or more of the following when attached to, or otherwise assembled with, one another:

- the steel core;
- the windings;
- electrical insulation between the windings; and
- the mechanical frame.

The product definition includes step-up transformers, step-down transformers, autotransformers, interconnection transformers, voltage regulator transformers, rectifier transformers, traction transformers, trackside transformers and power rectifier transformers.

Distribution transformers are not the subject of this application. Distribution transformers are smaller transformers, are manufactured in greater quantities and have design and manufacturing technology which is different from power transformers. Distribution transformers are generally used at the lower end voltages of the power distribution system.

3.1.1 Tariff classification

The goods are classified to the following tariff subheadings in Schedule 3 to the *Customs Tariff Act 1995*:

- 8504.22.00 – power transformers with a power handling capacity above 0.65 MVA up to and equal to 10 MVA
- 8504.23.00 - power transformers with a power handling capacity exceeding 10 MVA

The above classifications apply whether or not the power transformers are assembled or disassembled and also include incomplete articles, assembled or disassembled.

The general rate of duty is currently 5% and applies for the goods imported from Taiwan.

3.2 Product range and manufacturing facilities

3.2.1 Product range

SEEC is an advanced technology manufacturer in heavy electrical systems, electrical equipment, machinery and automation. Main products are automobile equipment products, heavy electric products, preacher and switchgear products, factory automation control products, industrial equipment products and digital products (agency sales).

3.2.2 Manufacturing facilities

SEECs power transformer plant (T plant) is one of a number of plants located at Hsinchu, Taiwan.

3.2.3 Production process

SEEC explained that the its power transformer production includes the following steps

1. Coil winding
2. Coil preparation for drying
3. Coil pressured into moulding and assembly
4. Core cutting
5. Core stacking
6. Coe fixing
7. Coil in core (LEG)
8. Coil stacking (YOKE)
9. Internal assembly
10. Body drying
11. Manufacturing of tank
12. Blast-cleaning and painting
13. Body in tank
14. External assembly
15. Vacuum oiling
16. Shop test
17. Disassembly and packing

During the verification meetings, we conducted an inspection of the production facilities of the T plant. SEEC explained that steps 1 through 10 are undertaken in a dust proof rooms that are “food class”.

3.2.4 Goods exported to Australia

During the investigation period SEEC sold ■ large power transformers with frequency 50Hz, power rating ranging from ■ MVA and voltage ration ranging from ■ kv.

The ■ units exported to Australia corresponded to ■ unique model/product codes that were not sold on the domestic market.

SEEC advised that the products exported to Australia are made from the same source material and go through the same production process as the goods sold on the domestic market.

3.2.5 Like goods

The term “like goods” is defined in section 269T of the Act to mean goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration.

The Commission has examined information on the physical and technical characteristics of power transformers produced by known exporters from the nominated countries and those produced by Wilsons Transformers. Information submitted by end-users for selected tenders shows that whilst power transformers differed across the various suppliers in terms of their engineering technology, both locally produced and imported power transformers complied with required technical specifications.

No interested party has suggested to the Commission that power transformers produced by Wilson Transformers and those produced by the overseas manufacturers from the nominated countries are not like goods.

On the available information, the Commission is satisfied that there is an Australian industry producing like goods to the goods the subject of the application.

3.3 Like goods – preliminary assessment

While we consider each power transformer is unique we consider that all power transformers sold domestically by SEEC are like goods in terms of s. 269T(1) of the Act.

4 SALES TO AUSTRALIA

4.1 General

The Australian market for power transformers can be divided into three applications:

- government owned utilities, with power transformers priced at the lower end and not necessarily built to last;
- Privately owned utilities that answer to shareholders that want to maximise the life of the utility; and
- Industry, for example mining companies and a five year life span for a power transformer is long enough

The company explained that it is in the business of building power transformers that last 30 years plus. SEEC has been working with [REDACTED], some as old as 60 years, in spaces that are now quite built up, have a much higher electricity demand and with a much higher level of building and environmental regulations than when the initial power transformer was installed. [confidential customer information]

SEEC commenced sales to Australia in 2010 [REDACTED]. Following on from that sale Shihlin Electric Australia P/L (SeA) was established as SEEC's Australian subsidiary/distributor. The branch office is located in Melbourne. [confidential customer details]

SeA is 100% owned by SEEC and there is no agency agreement between them and therefore no commission has been paid in the transactions. SeA is not related to any of its Australian customers.

Being new to the Australian market, the company has experienced a number of "learning curve" costs such as replacing certain parts that have been re-worked and re-painting with UV resistant paint.

SEEC explained that power transformers are a capital item at the "heart" of every electricity distribution system. SEEC intends to build the SEEC name in the Australian market by providing high quality after sales and technical support. SeA visits every SEEC power transformer with a service engineer from Taiwan and prepares a report on the status of the unit on an annual basis.

4.1.1 Products sold to Australia

SEEC exported the following model/products to Australia during the investigation period:

Model/ product code	Power rating (MVA)	Voltage ratio (kV)	Quantity
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

██████████	██████	██████	█
██████████	██████	██████	█
██████████	██████	██████████	█
██████████	██████	██████████	█
██████████	██████	██████	█
██████████	██████	██████████	█
██████████	█	██████████	█
██████████	██████	██████	█
██████████	██████	██████████	█
██████████	██████	██████	█
██████████	██████	██████████	█
██████████	██████	██████	█
██████████	██████	██████████	█
██████████	██████	██████████	█
██████████	██████	██████████	█
██████████	██████	██████████	█
			█

4.1.2 Customers in Australia

During the investigation period SEEC sold power transformers to the following utility companies: ██████████
 ██████████. Prices were negotiated through a public tender process. SeA submitted examples of tender documents in its importer questionnaire. [confidential customer details]

4.1.3 Export sales process

SeA negotiates price ██████████
 ██████████. [confidential information on sales process]

As soon as the tender is awarded to SeA the customer ██████████
 ██████████

[redacted]
[redacted] [confidential information on sales process]

SeA processes the [redacted]
[redacted] [confidential information on sales process]

After the product is manufactured and tested, it is ready to be dispatched. The product will be packed into wooden crates, trucked to Kaohsiung Port and transported by ocean vessel to Australia. Typically the main tank is on one bill of lading (B/L) and the accessories are on another. SeA is consignee on the B/L.

SeA engages [redacted], an Australian customs brokering company, to handle customs clearance and [redacted], an Australian logistics company, collects the transformers and parts at the port and delivers them to the designated site that was previously agreed in the sales contract.

Prior to the power transformer being assembled there is a period of “inspection and rejection” by both parties in terms of the specifications and for any damage. Rectification is done on site and following approval from both parties the power transformer is installed.

The customer pays SeA [redacted]
[redacted] [confidential information on sales process]

4.1.4 Contract variation charges

Contract expenses are unanticipated extraneous expenses incurred by SeA [redacted]
[redacted]. In these cases SeA would, on occasion, request reimbursement from SEEC

4.1.5 Reimbursed by SEEC

The company advised in certain cases the actual expenses are more than the budgeted expenses [redacted]
[redacted] [confidential information on reimbursements]

4.1.6 Start up costs

Since commencing its sales to Australia in 2010 SEEC has incurred a series of “learning-curve” costs. The company explained that Australia’s environment was much harsher than Taiwan in terms of temperature fluctuations and UV and this has meant modifications to tank size and finishing types. The company claims that if the same power transformers were produced for the Taiwanese market these start-up costs would not have been incurred.

4.1.7 Currency

Transactions between SeA and SEEC are in [REDACTED].

4.1.8 Terms of trade

The delivery terms between SEEC and SeA is [REDACTED].

SeA retains ownership until completion of the pre-commissioning tests. The tests are the last step in the contract performance. Upon completion of the tests ownership is transferred to the Australian customer.

4.1.9 Payment terms

Payment terms between SeA and the customer are specified in the contract and are generally instalment payments. [REDACTED]

4.1.10 Discounts, rebates and allowance

SEEC advised that there are no discounts or rebates for the goods exported to Australia.

Variation allowance

We note from the export sales listing that a variation allowance has been included for the amount of compensation paid by SeA to the customer when the product itself or the transportation or installation is faulty.

Reimbursement

SEEC advised that in certain cases SEEC will reimburse SeA [REDACTED]. [confidential information on reimbursements]

4.1.11 Date of sale

It is SEEC's view that the date of sale is the date of the contract between SeA and the customer.

4.2 Verification of export sales data provided

In its response to the exporter questionnaire, SEEC provided an export sales spreadsheet, listing each power transformer sale made to Australia within the inquiry period.

This spreadsheet included line-by-line information relating to:

- customer name;
- job site;
- reference number;
- level of trade;
- product/product code;
- power rating (MVA);
- voltage ratio (kV);

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- SeA contract number and date;
- SeA invoice (to customer) number and date;
- delivery date (date product released from SEEC's plant in Taiwan);
- shipping terms;
- payment terms (between SeA and the Australian customer);
- quantity (units);
- the selling price between SEEC and SeA as well as the selling price between SeA and the Australian customer (including variation revenue);
- exchange rate;
- ocean freight and other export charges (brokerage);
- marine insurance;
- packing;
- inland transport
- customs charges;
- logistics;
- installation;
- oil and vacuum;
- oil;
- testing;
- reimbursements by SEEC; and
- other (miscellaneous expenses)

At the commencement of the visit SEEC advised us that some of the export charges had not been included. SEEC provided us with an updated sales listing that included separate columns for brokerage, trade promotion service fee and harbour service fee, refer **confidential appendix EXP 1**.

We sought to verify the export sales data contained within this updated spreadsheet during our meetings with SEEC - see sections 4.2.1 and 4.2.2.

4.2.1 Verification of export sales to audited financial statements

As part of its REQ, SEEC provided an income statement and a turnover spreadsheet reflecting the total turnover for the investigation period. SEEC also provided audited financial reports (consolidated and unconsolidated) for 2011, 2012, and the first half of 2011 and 2013.

Completeness

Total company

At the commencement of the visit the company provided us with a revised income statement that corrected some errors in the reporting of the R&D expense and SG&A (**confidential attachment GEN 3**) and a revised sales summary (turnover statement) that corrected certain third country sales and domestic country sales that had been misclassified (**confidential attachment GEN 4**).

We were able to match the gross sales figure in the updated turnover statement and the net sales figure in the updated income statement to the total operating revenue in the

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audited financial reports (unconsolidated) for 2010, 2011, 2012, six months ended 30 June 2010 provided as in the REQ.

The company ran a gross profit report showing the sales revenue and cost of each job order for 2012, **confidential attachment GEN 5**. We were able to match the sales quantity and sales value in the gross profit report to the turnover statement.

The goods - domestic

The company ran a sales report from Access for the T plant for the period 1 July 2010 to 30 June 2013 (refer **confidential attachment GEN 6**) and removed:

1. sales of T119 (accessories and components), T1Q (installation and inland transportation), S and R, by filter;
2. units with capacity below 10 MV and above 500 kV, by filter;
3. PT (potential transformer) and CT (current transformers), by filter;
4. power transformers that are not 50 Hz (only 50Hz can be used in Taiwan), by filter;
5. [REDACTED], refer **confidential attachment GEN 7**;
6. [REDACTED] (we requested the specifications for a machine to see why it was excluded, refer **confidential attachment GEN 8**);
7. [REDACTED], by manual selection (we requested [REDACTED] for 2 machines, refer **confidential attachment GEN 9**);
8. [REDACTED], by manual selection (we requested [REDACTED] for 2 machines, refer **confidential attachment GEN 10**);
9. Turnkey sales, by manual selection.

[confidential information regarding SEEC power transformers]

From the screen we noted [REDACTED] machines at a value of [REDACTED] (refer screen shot at **confidential attachment GEN 11**). We have noted that this reconciles with the total domestic sales volume and value in the turnover statement and the domestic sales listing (**confidential attachment EXP 1**).

The goods – export sales to Australia

Referring to the Access sales report for the T plant for the period 1 July 2010 to 30 June 2013 (refer **confidential attachment GEN 6**) the company filtered for sales to SeA.

From the screen we noted ss machines at a value of [REDACTED] (refer screen shot at **confidential attachment GEN 12**). SEEC advised that in order No. [REDACTED], the main body and the part of the power transformer are counted as one piece in the sales ledger [REDACTED] but combined into one entry in Exhibit B-4 [REDACTED]. Accordingly, there were only [REDACTED] power transformers sold to Australian customers during the investigation period. We have noted that this reconciles with the total export sales volume and value in the turnover statement (**confidential attachment GEN 4**) and export sales listing (**confidential attachment EXP 1**).

The goods – export sales to other countries

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Referring to the Access sales report for the T plant for the period 1 July 2010 to 30 June 2013 (refer **confidential attachment GEN 6**) the company removed:

1. sales of T119 (accessories and components), T1Q (installation and inland transportation), S and R, by filter;
2. units with capacity below 10 MV and above 500 MV, by filter;
3. PT (potential transformer) and CT (current transformers), by filter;
4. reactor machines

From the screen we noted [REDACTED] machines at a value of [REDACTED] (refer screen shot **confidential attachment GEN 13**)

We then deducted the domestic and export sales to Australia and derived the following figures for export sales to other countries:

	Volume (Units)	Value (NTD)
Total	[REDACTED]	[REDACTED]
<i>Domestic market</i>	[REDACTED]	[REDACTED]
<i>Exports to Australia</i>	[REDACTED]	[REDACTED]
<i>Exports to other countries</i>	[REDACTED]	[REDACTED]

Completeness and relevance of sales - conclusion

On the basis of the verification discussed above, we are satisfied that the export sales and domestic sales listings submitted by SEEC (as amended) are complete and accurate. Tests of accuracy have been addressed with reference to links to source documents (discussed below for export sales and later in this report for domestic sales).

4.2.2 Verification of export sales to source documents

Prior to the visit, we selected four export sales from the detailed Australian export sales spreadsheet and requested the company provide source documents in relation to each invoice.

For each selected invoice, SEEC provided copies of the following documents:

- commercial invoice between SEEC and SeA;
- packing list;
- customs clearance form (Taiwan);
- bill of lading;
- packing payment voucher report (internal) and proof of payment;
- inland material payment voucher report (internal) and proof of payment;
- sea freight invoice and proof of payment;
- marine insurance invoice and proof of payment;
- harbour dues invoice and proof of payment;
- customs clearance invoice and proof of payment; and
- trade promotion invoice and proof of payment.

We were able to match the sales information in the source documents to the data in the detailed export sales spreadsheet. The source documents, including proof of payment for the selected sales, are at **confidential attachment EXP 2**.

4.2.3 Commercial invoice between SEEC and SeA

The company provided us with commercial invoices between SEEC and SeA. The company explained that these invoices are for shipping purposes. We noted that [REDACTED] amounts on the invoices matched the [REDACTED] amounts on Taiwan Customs clearance forms.

4.2.4 Packing and inland transport

The company explained that it treats packing and inland freight as a raw material cost and records a standard cost amount when the product is shipped. After receipt of the payment voucher the company updates the cost record in its Oracle system for packing and inland transport to the actual cost.

The export sales listing submitted in SEEC's EQR includes amounts for packing and inland transportation expenses. In general we were able to match the vouchers amount for packing and inland transport expenses for each of the selected invoices.

For one of the selected transactions SEEC provided vouchers for [REDACTED]% of the amount claimed. The company explained that the balance claimed was for an outstanding amount that had been estimated based on the standard cost. We were satisfied that the explanation provided was reasonable.

4.2.5 Exchange rates

In the export sales listing the company used the exchange rate as of the contract date to convert SeA's revenue and expenses from [REDACTED] to NTD. SEEC noted that it used the exchange rate published by Taiwan Customs.

We intend to use the Reserve Bank of Australia (RBA) published exchange rates to convert SEEC's [REDACTED] export prices to NTD to compare with cost to make and sell figures in NTD. The RBA rates are very similar to those listed by SEEC in its Australian sales spreadsheet.

4.2.6 Conclusion

Having been able to reconcile SEEC's export sales spreadsheets down to source documents, we are satisfied that the spreadsheets are accurate.

4.3 Forward orders

As part of its EQR SEEC provided a list of 5 power transformers expected to be shipped to Australia between [REDACTED] and [REDACTED].

4.4 The exporter

We consider SEEC to be the exporter of power transformers exported to Australia from Taiwan. SEEC:

- is the manufacturer of the goods;
- manufactured the goods as per the specifications provided by the Australian customer; and
- sent the goods for export to Australia and was aware of the identity of the Australian customer.

4.5 The importer

We consider that for export sales of power transformers to Australia in the investigation period, SeA was the beneficial owner of the goods at the time of importation. We noted that SeA:

- negotiated with the Australian customers;
- is named as the consignee on the bills of lading; and
- arrange and pay the importation expenses.

We consider SeA to be the importer.

4.6 Arms length

In respect of exports sales to Australia during the investigation period, we found evidence that the importer, SeA, [REDACTED]

[REDACTED]

Further, we note that SEEC [REDACTED]

[REDACTED]

[REDACTED], we consider it appropriate to recommend that the export sales were not arms-length transactions.

[confidential information on additional costs incurred by SeA]

4.7 Export price – preliminary assessment

We are satisfied that:

- the goods have been exported to Australia otherwise than by the importer;
- the purchase of the goods by the importer was not arms length transaction; and
- the goods are subsequently sold by the importer, in the condition in which they were imported, to a person who is not an associate of the importer .

We therefore consider that the export price for these sales can be determined under section under subsection 269TAB(1)(b), being the selling price of the goods by SeA, less prescribed deductions. We have deducted a reasonable amount of profit of █% in deriving an arms length export price.

Details of the export price calculations are at **confidential appendix 1**.

5 COST TO MAKE & SELL

5.1 Approach to verification

In its EQR, SEEC provided cost to make and sell (CTMS) data by each transformer for both domestic and Australian market sale for the investigation period. SEEC provided summary data for the 115 domestic was presented as:

- production cost of main body;
- variance adjustment of main body;
- transportation, installation and packing costs; and
- miscellaneous costs

In addition SEEC provided the more detailed costs for 24 domestic main bodies presented as follows:

- variable manufacturing costs
 - raw material
 - core steel
 - conductor
 - insulation
 - mild steel
 - tapchanger
 - CT & CT terminal box
 - radiators or heat ex., fittings
 - fans
 - pumps
 - valves
 - control panel
 - oil
 - bushings (HV, MV, LV)
 - packaging
 - installation Instructions fee
 - gaskets
 - breather
 - cooler
 - paints
 - NGR
 - switches
 - transportation charges
 - transportation and installation
 - wire & cable
 - relay
 - copper
 - nameplate
 - meters
 - rubber bags
 - crimp terminals
 - oil filter

- screws
- lightning arrester
- scrap
- other
- direct labour
- fixed manufacturing costs
 - overheads
 - depreciation
 - finance charges
 - other costs
- variance Adjustments
 - labour
 - overheads
- transportation, installation or packing cost
- misc. costs
- selling costs
- administration costs
- R&D
- delivery expenses
- other costs

For the remaining products SEEC reported the total production cost.

During verification, SEEC provided updated and revised detailed cost to make and sell information for all units sold domestically refer **confidential attachment COSTS 1** and exported to Australia refer **confidential attachment COSTS 2**.

5.2 Cost verification – Reconciliation to financial statements

We explained to SEEC that we were seeking to satisfy ourselves that the costs reported for each of the individual units sold domestically and exported to Australia were the complete costs by reconciling them through to the company's audited statements.

SEEC commenced by identifying the relevant cost of goods sold in its audited statements and provided relevant summary reports that provided a breakdown of those costs across the relevant divisions within the company. After numerous attempts and a significant amount of time, SEEC was unable to properly demonstrate a link between its financial reporting system and its ordering, costing and production systems.

The inability to properly verify costs upwards to financial statements was not a result of SEEC impeding to the verification process or due to a lack of cooperation on the company's behalf. It appeared to us that the difficulties were caused by the lack of a proper financial reporting system capable of storing, identifying and reporting relevant information in a format easy to manipulate and interrogate.

Instead the linkages that the company chose to use to reconcile costs was numerous, large and complex data downloads into excel which required a significant amount of post-processing in order to present in a format that could then be followed. Even after significant work by SEEC staff, we were unable to properly reconcile costs from those presented in appendices G4 and G5 to the company's audited statements.

We advised SEEC that it was advisable to cease the upwards verification and concentrate on the downwards verification through to source documents to enable us to properly assess whether the cost to make and sell information was accurate.

5.3 Reasonableness

5.3.1 Raw materials

As part of our verification, we selected a sample of domestic and export units for detailed examination of manufacturing costs with a view to ultimately concluding whether the costs contained in SEEC's questionnaire response were reasonable and appropriate for use in constructing normal values.

At the outset, SEEC provide a summary production report which identified the selected main body product code and all corresponding job order numbers relevant to the job. The report also identified the total raw material costs and raw material expenses for each individual job order. Total amounts for labour and overheads were also identified but were attributed directly against the main job order or main body. We were able to reconcile these figures directly into their Access costing system.

Following this, SEEC provided copies of the specific job costing report which identified for every key material and component the planned quantity, actual quantity, withdrawal cost and any necessary adjustments to derive a final total cost. We could reconcile the total figures for raw materials, material indirect costs, labour and overheads in the job costing report to the amounts reflected in the Access costing system and the summary production report provided at the outset.

For the first of the selected units, we requested that SEEC demonstrate that the costs outlined in the job costing report accurately reflected the costs of production. For this purpose we selected a number of key materials and components including:

- Core steel;
- Conductor;
- Tap changer;
- Bushings;
- Radiator, and
- Scrap

SEEC explained that costs are based on standard costs with adjustment for variances reflected in the cost of goods sold in each month. It was explained that standard costs were based on the most recent purchase cost of the relevant material/component and as a result, in its view closely reflected the actual costs.

Using core steel as an initial example, we sought to understand the methodology for calculating the standard cost and the total cost for core steel identified in the job costing report. In the case of the units that make up contract no. 101377, SEEC was able to show the purchase of core steel on four separate occasions. This relevant screenprint showed the amount purchased, consumed and the corresponding unit purchase price.

SEEC explained that

[REDACTED]

We noted that

[REDACTED]

We queried with SEEC why

[REDACTED]

However, we noted

[REDACTED]

In the case of variances,

[REDACTED]

SEEC further explained that the calculated variances

[REDACTED]

[confidential information concerning SEEC's costing system]

We informed SEEC during the verification visit that following our examination of core steel costs and an accurate understanding of the methodology used by the company to record standards costs and calculate relevant variances for all raw materials, we were of the preliminary view that whilst the records are kept in accordance with generally accepted accounting principles in Taiwan, we do not consider that the cost to make and sell

information presented by SEEC to reasonably reflect costs associated with the production or manufacture of like goods.

We have particular concern that the approach adopted by SEEC to calculate variances does not adequately capture the true difference between the standard cost and the actual costs of the raw materials consumed in production.

In response SEEC accepted that there may be more reasonable approaches to accounting for raw material costs and proposed to recreate the cost to make and sell data in line with a moving average cost of inventory for all affected materials. Under this approach it intends calculating raw material costs by attributing the relevant quarterly cost of inventory to the relevant volumes consumed in the corresponding quarter.

SEEC provided its assessment of costs under this revised methodology and found that there were insignificant variations in costs. The company considers therefore that the costs presented are suitable for establishing normal values.

We undertook no further verification of SEEC's costs during the visit and have not interrogated the revised costing methodology and as a result make no comment on its accuracy or reasonableness.

5.3.2 Labour and overheads

SEEC explained that direct labour and overheads were calculated on standard costs and allocated variances. The standard costs are based on forecasted annual budgets which are set at the beginning of each year. Effectively these standard costs are referenced to the previous year's salary rates and labour hours.

The variances are calculated by the difference between the actual labour and overheads incurred and the standard values. This variance is then allocated to each specific job using the labour hours incurred for each job.

SEEC provided all requested source documentation and spreadsheets showing the allocation of variances to the individual jobs. We are satisfied that labour and overhead costs were reasonable and accurately presented by SEEC.

5.4 Selling, general and administration (SG&A) expenses

SG&A expenses include:

- sales expenses;
- general administrative expenses;
- R&D expenses;
- interest expenses; and
- financial gains and losses.

All SG&A expenses from the T-division profit centre were allocated. These costs were allocated to domestic, export or third country sales using respective sales revenue. SEEC undertook further allocations of SG&A to separately identify relevant expenses incurred in

selling transformers to the [REDACTED] and all other non-utility customers.

Selling expenses to [REDACTED] were approximately double the amount allocated to the non-utility customers.

5.5 Costs to make and sell - conclusion

We consider that SEEC's costs to make and sell data contained in its exporter questionnaire response is not a reasonably complete and accurate reflection of the actual costs to make and sell power transformers during the investigation period. As a result we recommend that the costs of production and administrative, selling and general costs be disregarded in accordance with Reg 180(7) and Reg 181(7) respectively for the purposes of determining a constructed normal value under section 269TAC(2)(c) of the Act.

6 DOMESTIC SALES

During the investigation period SEEC sold approximately [REDACTED] units on the domestic market during the three year investigation period. .

During verification, SEEC provided an amended Domestic Sales spreadsheet to replace the version provided with its EQR. This forms **confidential attachment DOM 1**.

6.1 Domestic market

SEEC outlined that the domestic market for power transformers is divided into the utility and non-utility markets. Utility involves sales to the one customer being the [REDACTED] and the non-utility sector comprises largely project driven customers.

Differences between these two sectors reflect similar differences between the utility and non-utility sectors in Australia. Utility customers require long lasting units with a particular focus on design and technical specifications. Non-utility customers are generally looking to replace an older unit and factors considered critical to these customers include:

1. Price and provisions/conditions of supply
2. Ease of installation and operation
3. Lead times (generally 6 months) and payment terms (90-120 days after the end of the month)
4. Warranty conditions (typically 1 year)

Units to this sector typically comprise 69 kV and 161 kV, or 10-100 MVA.

Sales to both sectors are [REDACTED]

Sales to the utility sector are [REDACTED]

[REDACTED]. Units to ~~ess~~ will generally involve 69 kV, 161 kV and 345 kV, and up 1,260 MVA which were used for Taiwan's nuclear power plants.

[confidential information regarding sales process]

6.2 Pricing and terms

Domestic sales made by SEEC offered a range of payment terms to customers, including [REDACTED] after invoice date to non-utility customers and scheduled instalment payments to TPC. [confidential information regarding payment terms]

Delivery terms reflected a combination of delivered to site, completion of pre-commissioning and completion of factory acceptance testing.

6.3 Sales verification - reconciliation to financial statements

We firstly sought assurance that the data submitted by SEEC in respect of its domestic sales was comprehensive.

Beginning with the audited financial statements for 2012, SEEC was able to reconcile total sales revenue through to a trial balance report for the same period. Tracing the total sales, we were able to establish the further breakdown of sales into various divisions with SEEC and specifically for the heavy industries division which included the power transformers. The list of domestic sales included all power transformers sold during the period, which included both exported and domestic units.

Firstly, as units sold domestically had a utility frequency of 60hz, SEEC was able to isolate and exclude the all units manufactured to the 50HZ frequency. The remaining sales included all power transformers (domestic and export) of 60hz and SEEC removed sales to export markets leaving just sales made in Taiwan.

SEEC then advised that it had made a number of domestic sales which it had also excluded from its domestic sales listing for the following reasons:

- [REDACTED];
- Sales made to another domestic customer [REDACTED] to [REDACTED], and
- [REDACTED].

[confidential information regarding exclusion of certain domestic sales]

In total the units excluded from these circumstances represented [REDACTED]-units over the entire investigation period. We requested supporting documentation of export destinations for the first two scenarios and invoices for the turnkey project.

The remaining domestic sales of [REDACTED] units and the associated revenue reconciled to the domestic sales listing provided. We are satisfied that SEEC has provided a complete list of its domestic sales made during the investigation period.

Documents relevant to sales completeness form **confidential attachment DOM 2**.

6.4 Domestic sales verification - reconciliation to source documents

Prior to the visit, we requested that SEEC provide supporting documents for 12 selected domestic sales transactions.

SEEC provided source documents for each of these sales during the verification, containing the:

- relevant contract (where applicable);
- commercial invoice;

- packing list;
- evidence of payment of rebate (where applicable);
- evidence of installation expenses, and
- bank statements showing proof of payment.

The source documents for selected domestic sales transactions form **confidential attachment DOM 3**.

We were able to reconcile the sales values using the commercial invoices and to the updated sales spreadsheet.

6.5 Arm's length

In respect of domestic sales during the investigation period, we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider that all domestic sales during the investigation period were arm's length transactions.

6.6 Volume of sales and ordinary course of trade

Given the preliminary finding that SEEC's costs do not reasonably reflect the cost of production of like goods, we are unable to assess whether its domestic sales were profitable and recoverable.

7 THIRD COUNTRY SALES

The Commission considers that, given the nature of the goods under consideration, it may not be appropriate to determine normal values on the basis of domestic sales (pursuant to section TAC(1)), or sales to third countries (pursuant to section 269TAC(2)(d)).

As part of the instructions for completing the REQ companies were requested to complete section F only if it would submit that it is appropriate to determine normal values pursuant to section 269TAC(2)(d). SEEC advised that it was of the view that third country sales are not an appropriate basis of normal value and did not respond to section F.

8 ADJUSTMENTS

Whilst the calculation of a normal value is subject to further consideration of SEEC's proposal for further verification of revised costs to be submitted by the company, we have made the following preliminary findings with regards to adjustments.

8.1 Inland freight

As discussed earlier in the report the company treats inland freight as a raw material cost. In order to ensure normal values are comparable with export prices, we consider that the constructed normal value includes an adjustment for the export inland freight and other associated export charges.

8.2 Packing costs

As discussed earlier in the report the company treats packing costs as a raw material cost. In order to ensure normal values are comparable with export prices, we consider that the constructed normal value includes an adjustment for the export packing costs.

8.3 Credit

We have calculated the cost of export credit by deriving a weighted average payment date by SeA for sales in the Australian market and calculating the average number of days that date occurred in relation to the delivery date for the projects. We were then able to calculate a weighted average number of days credit for the investigation period.

8.4 Start-up costs

It is SEEC's view that start-up costs would not have happened if the power transformers were manufactured according to Taiwanese customer's requirements and standards and that to construct a "fair" normal value these costs should be deducted from total production costs.

At the visit the company explained that the start-up costs were for [REDACTED]. In its REQ the company submitted that the start-up costs be amortized as opposed to being expensed as a current cost for the purposes of constructing a normal value. The company proposed that these start-up costs should be amortized to a period of 15 years, according to the service life of power transformer published by the Taiwan Tax Authority. [confidential information regarding start-up costs]

We consider that the start-up costs as explained at the visit are part of the cost to make the power transformer exported to Australia. As we were not provided with any evidence to show that the start-up costs as explained had be amortised by the company in its audited accounts we consider that these costs be included as part of the normal value calculation.

Additionally, we do not accept SEEC view that these are start-up expenses. These are expenses incurred by SEEC [REDACTED]

[REDACTED]

. [confidential information regarding start-up costs]

NORMAL VALUE

We consider that it is not appropriate to determine normal values in accordance with s.269TAC(1) of the Act, using domestic sales as adjusted for proper comparison with export sales, as each power transformer is a unique capital good that is manufactured to order.

Further, we consider that costs presented by SEEC do not reasonably reflect the costs of production or manufacture of like goods. We preliminarily recommend that in accordance with s.269TAC(7), the costs submitted by SEEC be considered unreliable and disregarded for the purposes determining normal values under s.269TAC. As a result, we are unable to determine whether domestic sales were sold in the domestic market in the ordinary course of trade.

For similar reasons, we are unable to determine normal values under s.269TAC(2)(c) as the cost of production of the exported goods as presented by the exporter are not reasonable, complete and reliable.

We recommend that normal value be determined under s.269TAC(6) having regard to all relevant information, as sufficient information is not available to enable normal value of goods to be ascertained under the preceding subsections.

8.5 Profit

As explained at section 6.6 of this report, we are unable to determine the cost of production of the goods and like goods and as a result are unable to properly test whether domestic sales were sold profitably over the investigation period.

For the purposes of this report, we note the following levels of profit that could be calculated using information presented in SEEC's questionnaire response.

1. [REDACTED] % achieved on all domestic sales of power transformers during the investigation period;
2. [REDACTED] % achieved on all profitable sales of like goods during the investigation period;
3. [REDACTED] % achieved on all domestic sales of power transformers to [REDACTED] during the investigation period. SEEC consider these to be the most appropriate level of trade to be compared with exports to Australia;
4. [REDACTED] % achieved on all profitable sales of power transformers to [REDACTED] during the investigation period.

[REDACTED] are not convinced by SEEC's view that the normal value should be based on profits achieved on sales to [REDACTED] alone.

Regulation 181A sets out the manner in which the Minister must determine an amount of profit to be included in a constructed normal value. Pursuant to reg. 181A(2), "the Minister must, if reasonably possible, work out the amount [for profit] by using data relating to the production and sale of like goods by the exporter or producer of the goods in the ordinary course of trade"

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As SEEC has domestic sales of like goods in the ordinary course of trade, there is available information to reasonably calculate the level of profits achieved on like good sales in the ordinary course of trade. Therefore we consider and recommend that a reasonable amount of profit to be added to a constructed normal value is [REDACTED] %.

9 DUMPING MARGIN

Notwithstanding concerns with SEEC's costs, we have calculated a preliminary dumping margin on the basis of the costs contained in the questionnaire response and an average profit achieved on all domestic sales.

Whilst this may not be the most appropriate basis for determining a dumping margin for SEEC's exports, in the circumstances the information presented in the questionnaire response is the only relevant information available to us.

In calculating the dumping margin we compared each export transaction with the corresponding normal value. All identified exports were contracted and exported during the investigation period. The weighted average product dumping margin is 38%. The dumping margin calculation is at **confidential appendix 1**.

SEEC indicated that it has a number of concerns with the dumping margin calculation, which it communicated to the Commission in a submission dated 19 May 2014. The Commission has not yet considered these concerns. It is possible that, if amendments are made to the dumping margin calculations to address the SEEC's concerns in the manner expected by SEEC, the final dumping margin will be lower than is expressed in this report. SEEC's calculations indicate the margin would be less than 5%. The Commission has not yet reviewed SEEC's calculations.