



**Australian Government**

**Anti-Dumping Commission**

---

**INVESTIGATION INTO THE ALLEGED DUMPING OF  
POWER TRANSFORMERS EXPORTED FROM**

**THE PEOPLE'S REPUBLIC OF CHINA, THE REPUBLIC OF  
INDONESIA, THE REPUBLIC OF KOREA, TAIWAN,  
THAILAND AND THE SOCIALIST REPUBLIC OF VIETNAM**

**EXPORTER VISIT REPORT**

**CHINT ELECTRIC CO., 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 the Anti-Dumping Commission**

**July 2014**

# Non-Confidential Version

## 1 CONTENTS

1	CONTENTS .....	2
2	BACKGROUND .....	3
2.1	Background to the current investigation.....	3
2.2	Purpose of visit.....	3
2.3	Meeting dates and attendees.....	4
2.4	Meeting and preliminary issues.....	4
3	COMPANY INFORMATION .....	6
3.1	Company background.....	6
3.2	Commercial operations .....	6
3.3	Accounting.....	7
4	THE GOODS UNDER CONSIDERATION .....	9
5	VERIFICATION OF SALES TO FINANCIAL STATEMENTS.....	10
5.1	Domestic sales - reconciliation to audited financial statements.....	10
5.2	Export sales - reconciliation to audited financial statements .....	11
6	SALES TO AUSTRALIA .....	12
6.1	General.....	12
6.2	Export sales process.....	13
6.3	Pricing .....	13
6.4	Verification to source documents.....	14
6.5	The exporter.....	15
6.6	The importer.....	16
6.7	Arms' length .....	16
6.8	Export price preliminary assessment.....	16
7	COST TO MAKE & SELL .....	18
7.1	Introduction.....	18
7.2	Cost to make and sell.....	18
7.3	Cost of production .....	19
7.4	Selling, general/administrative and finance expenses.....	24
7.5	Cost to make and sell – summary.....	25
8	DOMESTIC SALES .....	26
8.1	General.....	26
8.2	Domestic sales process .....	27
8.3	Verification to source documents.....	27
8.4	Arms' length .....	28
8.5	Ordinary course of trade and profit on domestic sales .....	29
8.6	Domestic sales – summary .....	30
9	THIRD COUNTRY SALES .....	31
10	ADJUSTMENTS .....	32
10.1	General.....	32
10.2	Credit terms.....	32
10.3	Export VAT rebate.....	33
11	NORMAL VALUE.....	34
12	DUMPING MARGIN – PRELIMINARY ASSESSMENT .....	35
13	LIST OF APPENDICES AND ATTACHMENTS .....	36

# Non-Confidential Version

## 2 BACKGROUND

### 2.1 Background to the current investigation

On 8 July 2013, Wilson Transformer Company Pty Ltd (Wilson Transformers) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of power transformers exported to Australia from the People's Republic of China (China), the Republic of Indonesia (Indonesia), the Republic of Korea (Korea), Taiwan, Thailand and the Socialist Republic of Vietnam (Vietnam). A full description of the goods under consideration is included in section 4 of this report.

On 29 July 2013, the Commissioner of the Anti-Dumping Commission (the Commission) decided not to reject the applications and initiated an investigation 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 No. 2013/64 provides further details of the investigation and is available on the Commission's website at [www.adcommission.gov.au](http://www.adcommission.gov.au).

Since the investigation was initiated there have been changes to the administration of Australia's anti-dumping system. The Parliamentary Secretary to the Minister for Industry is now responsible for making decisions concerning the publication of dumping and countervailing duty notices.

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 CHINT as an exporter of power transformers from the People's Republic of China (China). A search of Customs and Border Protection's import database indicated that CHINT Electric Co., Ltd (CHINT) exported power transformers from China to Australia during the investigation period. The Commission wrote to CHINT 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. CHINT completed the exporter questionnaire, providing details regarding the company, exports, domestic sales and cost to make and sell (CTMS) power transformers.

### 2.2 Purpose of visit

The purpose of the visit was to verify information submitted by CHINT in its exporter questionnaire response. The exporter questionnaire response was supported by confidential appendices and attachments, including confidential spread sheets containing sales and cost data requested in the exporter questionnaire. A non-confidential version of the exporter questionnaire response was placed on the public record. We used verified information gathered at the visit to make preliminary assessments of:

## Non-Confidential Version

- like goods;
- who is the exporter and who is the importer;
- export prices;
- normal values; and
- dumping margins.

### 2.3 Meeting dates and attendees

Verification meetings were held at the offices of CHINT in Shanghai, China from 26 May to 30 May 2014.

The following people were present at various stages of the meeting:

<b>CHINT</b>	
Mr. Lin Bosheng Mrs. Zhang Kun Mr. He Xiaoyue Mrs. Cheng Qunxin Mrs. Jiang Yunping Mr. Wang Caibao Mr. Jerry Jia Mr. Zhu Lianhai Ms. Mo Li'na	Deputy General Manager of CHINT Accountant of CHINT Accounting Manager of Power Transformer Division Accountant of Power Transformer Division Cost Accountant of Power Transformer Division Accountant of International Trade Division Sales Manager of International Trade Division Engineer of Power Transformer Division Manager of Legal Service Department of CHINT
<b>Zhong Yin Lawyer</b>	
Mr. Jia Zheng Mr. Teddy Wang Ms. Wang Beibei	Partner of Zhongyin Law Office Accountant of Zhongyin Law Office Lawyer of Zhongyin Law Office
<b>Anti-Dumping Commission</b>	
Mr Geoff Gleeson Mr Victor Xu	Director, Operations 1 Investigator, Operations 1

### 2.4 Meeting and preliminary issues

We advised CHINT of the following.

- The investigation period is July 2010 to June 2013 – this is the period for which dumping margins will be assessed.
- The Commission will examine the Australian market from January 2008 for the purpose of analysing the condition of the Australian industry.
- In October 2013, the Minister granted an extension to the publication date for the statement of essential facts (SEF). The revised due date for the SEF is 16 July 2014.
- The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Minister. The SEF will invite interested parties to respond, within 20 days, to the issues raised.
- Submissions received in response to the SEF will be considered when compiling the report and recommendations to the Minister.

## Non-Confidential Version

- The Commission's report to the Minister is now due no later than 30 August 2014.
- The Minister's decision is due within 30 days from the date of receipt of the final report.

We also advised CHINT, in relation to preparing the final visit report, that:

- following our visit we would prepare *For Official Use Only* and *Public Record* versions of our visit report.
- we would provide the company with a draft of our report to review its factual accuracy and to identify those parts of the report it considered confidential
- following consultation about confidentiality, we would prepare a non-confidential version of the report for the public record.
- the public record version of the report had to contain sufficient detail to allow interested parties to understand the process that was undertaken, the substance of the information examined by the team, and the results of the verification process.





## Non-Confidential Version

CHINT's accounts are maintained in Chinese yuan (CNY). Export sales are transacted in foreign currencies and converted at the exchange rate published by the Bank of China on the first day of the month when payments were received.

CHINT stated that revenue is recognised when the power transformer is delivered, and that any prepayments and progress payments are not invoiced until delivery.

In its exporter questionnaire response, CHINT provided:

- audited financial statements for 2011 and 2012; and
- charts of accounts (**confidential attachment GEN 4**).

CHINT's financial accounts are prepared in Chinese and audited by Crowe Horwath China Certified Public Accountants. An audit certificate and translated version of the audited financial statements were provided before the visit (**confidential attachment GEN 5**).

The exporter questionnaire response states that CHINT's financial accounting practices are in accordance with Chinese generally accepted accounting principles (GAAP).

CHINT's independent auditor provided the following audit opinion in the audit report for the 2012 separate financial statements:

*In our opinion, the financial statements are prepared, in all material respects, in accordance with Accounting Standards for Business Enterprises, and present fairly the financial position of the Company as of December 31, 2012 and of its financial performance and cash flows for the year then ended.*

The audit opinion for 2011 consolidated financial statements was similarly worded.



## Non-Confidential Version

### 4 THE GOODS UNDER CONSIDERATION

The goods 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*

The goods are referred to as power transformers in this report.

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 other:

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

Gas filled and dry type power transformers are not included in the goods under consideration (GUC).

The application stated that distribution power transformers are not the subject of this application. The applicant considers that distribution power transformers are smaller transformers that have design and manufacturing technology which is different from power transformers. We note that some interested parties have a different definition of distribution power transformers. However, the Commission considers that all power transformers with a capacity of greater than or equal to 10 MVA are the goods under consideration.

The goods are currently classified to the tariff subheading 8504.22.00 (statistical code 40) and 8504.23.00 (statistical codes 26 and 41) of Schedule 3 to the *Customs Tariff Act 1995*. The general rate of duty is 5% and applies to power transformers imported from China, Korea and Taiwan. Power transformers from Indonesia, Vietnam and Vietnam are duty free.

Power transformers are individually designed and engineered to meet the customer's specifications. While electrical steel and copper conductors are the most significant cost components, there are many other variables that affect price. Items such as oil, insulation material and ancillary options (such as tap changers) can significantly affect price.

## Non-Confidential Version

### 5 VERIFICATION OF SALES TO FINANCIAL STATEMENTS

#### 5.1 Domestic sales - reconciliation to audited financial statements

Prior to commencing this exercise, CHINT advised that it had made a slight revision to its Exhibit D-4 Domestic sales data to take account of revenue from work on “supplementary requirements” of customers. It explained that this is because these are subject of separate contracts and the revenue from those was not captured in the original download of sales data. CHINT provided an example (in relation to contract 201181155), which is at **confidential attachment DOM 1**. We noted that the domestic sales value for that contract had been updated to the extent of the value of the supplementary work. We also noted that the total domestic sales value of the revised domestic sales spreadsheet had increased by approximately 1% since the original data supplied.

We asked CHINT to demonstrate how the domestic sales data contained in its Exhibit D-4 reconciled up through management reports to the audited financial statements. We chose the year of 2012 for this verification exercise.

Firstly, using the data at Exhibit D-4, CHINT sorted its domestic sales data for the GUC for those sales with invoices in 2012. It then demonstrated how the total gross revenue for these sales could be traced to the total revenue reported for the “Transformer Division”, after taking account of the sales value of non-GUC in 2012. In support of this calculation, CHINT provided copies of its monthly sales ledger reports for the “Main Business Income” account for that Division. We noted that the sum of the 12 monthly sales ledger reports matched a summary worksheet for Transformers that showed the total transformer revenue as well as a dissection between the GUC and non-GUC (as manually compiled by CHINT). We noted the sales value of GUC was around █████% of total “Transformer Division” sales value for 2012. Copies of CHINT’s domestic sales ledger reports and the summary worksheet are at **confidential attachment DOM 2**.

In order to be satisfied with the way in which CHINT had identified and separated non-GUC sales, we selected one month (April 2012) and asked for details of the distinction made between the GUC and non-GUC. CHINT provided sales ledgers and tax invoices which together supported the accuracy of the distinctions made. The sales ledgers and tax invoices for April 2012 are at **confidential attachment DOM 3**.

CHINT also provided copies of its monthly Income Statements for the “Transformers Division”. The year-to-date figure for revenue in 2012 also matched the amounts for “Main Business Income” shown in the documents above. The monthly Income Statements for the “Transformers Division” are at **confidential attachment DOM 4**.

CHINT then demonstrated how the revenue figure for the “Transformers Division” can be added to the revenue figure for “High voltage switchgear” for 2012, to arrive at the total revenue figure for the “Transformers and High Voltage Switchgear” Division. In turn, this revenue amount was added to the revenue figures for each of the other 6 Divisions to arrive at the total revenue for CHINT that is shown in the Income

## Non-Confidential Version

Statement reported in its audited financial statements. Copies of CHINT's revenue summaries (by month, for 2012) for the "Transformer Division" and "High Voltage Switchgear Division"; its summary of revenues for all Divisions; and its Income Statement for 2012 are at **confidential attachment DOM 5**.

It should be noted that the value of export sales (for GUC and non-GUC) is accounted for within the Division called "International Trade Division" – discussed further in the section of this report dealing with "Export sales - reconciliation to audited financial statements".

Having regard to the above, we were satisfied that the domestic sales data for like goods as reported by CHINT for the investigation period, in its Exhibit D-4, was reasonably complete and accurate.

### 5.2 Export sales - reconciliation to audited financial statements

We sought to ensure a similar reconciliation exercise could be followed in relation to sales values of the power transformers exported to Australia in the investigation period. Again, we chose 2012 for the exercise.

CHINT commenced by providing a written summary of the power transformer sales by the "International Trade Division" to Australia in 2012 (those with delivery date in 2012, which also happened to have invoice date in 2012). These details matched the data at Exhibit B-4 for power transformers. The summary also contained sales values in relation to sales to Australia of products other than the GUC, and sales of GUC and other products to third countries.

CHINT also provided a copy of its Income Statement for the "International Trade Division", along with monthly sales records, for 2012. The sum of the monthly sales records, which had the individual sales of power transformers to Australia highlighted, matched the 2012 total sales revenue for that Division. The total sales value for 2012 matched the summary discussed above.

Copies of the written summary, the extract from B-4, the Income Statement for the "International Trade Division", and the monthly sales records, all for 2012, are at **confidential attachment EXP 1**.

We noted that the total sales value for the "International Trade Division" matched the amount shown in the schedule of revenue amounts for all 6 Divisions (see confidential attachment DOM 5) to arrive at the total revenue for CHINT that is shown in the Income Statement reported in its audited financial statements for 2012.

Having regard to the above, we were satisfied that the export sales data for the goods as reported by CHINT for the investigation period, in its Exhibit B-4, was reasonably complete and accurate.



## Non-Confidential Version

CHINT stated that delivery term [REDACTED]. All sales to Australia have warranty terms. CHINT stated that it maintains [REDACTED] % of the contract value as a general provision for warranty expenses, for all transformers exported to Australia. However, CHINT stated there were no major warranty claims during the investigation period.

CHINT considers that the Australian market can be categorised into two segments – mining sectors and public utilities.

### 6.2 Export sales process

During the investigation period CHINT sold power transformers to [REDACTED]

As CHINT is a qualified power transformer provider, CHINT is invited to either provide a proposal to the Request for Quote (RFQ) or join the tender process when there are opportunities for the provision of power transformers to Australia.

The proposal normally includes price, exchange rate, lead time of production, and terms of delivery and payments. The customer will evaluate the price while clarifications and alterations can be made during this time. Once an agreement is reached, the customer issues a purchase order (PO) or establishes a contract with CHINT.

CHINT will arrange purchasing of materials and production once the PO or contract is confirmed. After the power transformer is manufactured and tested, it will be disassembled. The main tank will be placed on a flat rack, while the ancillaries will be packed into wooden crates, and then put into general purpose (GP) containers. They will be shipped to Australia [REDACTED]. For [REDACTED] delivery, CHINT uses a Chinese international logistic company who is responsible for customs clearance and logistics to deliver the transformers and parts [REDACTED]. The logistic company issue one invoice to CHINT including ocean freight, insurance, port and handling charges.

CHINT usually choose [REDACTED] as contract currency. CHINT will undertake foreign exchange hedging according to the time of delivery stipulated in the contract. CHINT issues one invoice to the Australian customers after delivery and the Australian customers make payment to CHINT by T/T.

### 6.3 Pricing

Pricing is determined by individual features of each power transformer. During the initial quotation process, CHINT works in conjunction with their Australian customers to clarify technical specification, delivery terms, etc.. Once a quotation is agreed, a

## Non-Confidential Version

contract is signed by both parties or a purchase order is sent to CHINT by the customer. Where variations to the power transformers occur, the quoted price will be adjusted before invoice is issued.

[Confidential commercial terms]

### 6.4 Verification to source documents

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

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

- Customer name
- Level of trade
- Model/product code
- Power rating (MVA)
- Voltage ratio (kV)
- Contract number
- Contract date
- Invoice number
- Invoice date
- Delivery date
- Shipping terms
- Payment terms
- Quantity
- Gross invoice value
- Other charges
- Currency
- Exchange rate
- Net invoice value
- Ocean freight
- Marine insurance
- [REDACTED] export price, and
- Inland transport
- Handling & other

During the visit, CHINT provided supporting documents for all [REDACTED] export sales transactions. These documents are at **confidential attachments EXP 2** and included:

- Purchase order;
- CHINT's invoices to customers;
- Packing list;
- Bill of Lading;

## Non-Confidential Version

- Payment confirmation including remittance advices;
- Documents supporting expenses i [REDACTED] and [REDACTED]
- Extract from accounting ledger for sales income.

We verified that the key data including sales volume and value in the export sales spreadsheet reflected the data in the source documents provided. Based on the transactions examined, we are satisfied that the invoice price shown in the export sales spread sheet accurately reflected the price paid by CHINT and that payments were made pursuant to most of the terms of sale. However, we noted that payment was not necessarily in accordance with the quoted credit terms. This is discussed further in the adjustments section of this report.

We verified the costs for ocean freight, marine insurance, inland freight and handling & other charges from the documents provided to the export sales spreadsheet. The figures match.

CHINT maintains a [REDACTED]% of the contract value as a general provision for warranty issues. CHINT state that only minor warranty issues occurred, there was no technical and other charges in respect of its exports to Australia during the investigation period.

We verified the payment dates for all transactions and calculated weighted average export credit terms (number of days) for each export sale by comparing the delivery date for each export transaction with the dates that payments were received for each power transformer, and then weighting the calculation in accordance with payment amounts.

### 6.5 The exporter

For export sales during the investigation period, we consider CHINT to be the exporter of the GUC for the following reasons:

- CHINT enters into contracts with the Australian customers for the manufacture and supply of the goods;
- CHINT manufactures the goods for export to Australia, in accordance with the unique specifications required by the Australian customers;
- CHINT knowingly packages the goods for export to Australia and places the goods in the hands of a carrier for final delivery to Australia;
- CHINT arranges and pays for associated logistic costs and other export expenses incurred in moving the GUC to Australian customers, and
- CHINT was aware of the identity of the purchaser of the goods.

## Non-Confidential Version

### 6.6 The importer

Having regard to the definition of importer at Section 269T(1)<sup>1</sup>, we consider the Australian customers to be the beneficial owners of the GUC at time of importation for the following reasons:

- the Australian customers negotiate directly with CHINT the supply of goods and enters binding legal contracts pursuant to negotiated terms;
- the Australian customers are named on supplier invoices
- the Australian customers named as the consignee on the bill of lading; and
- the Australian customers transferred the full price of the goods to CHINT and become the beneficial legal owner of the goods.

We consider that the Australian customers are the beneficial owner of the goods at the time of importation and are therefore the importers of power transformers exported by CHINT during the investigation period.

### 6.7 Arms' length

Section 269TAA outlines the circumstances in which a purchase or sale of goods will not be treated as an arms length transaction, which is an important consideration when assessing export price. Based on our examination of the export sales data and supporting source documents, we found no evidence that:

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

Based on the above, we consider that power transformers exported by CHINT to Australian customers in the investigation period were sold in arms length transactions in terms of Section 269TAA .

### 6.8 Export price preliminary assessment

Based on the information provided by CHINT, which was verified at their premises, we consider:

- that the goods have been exported to Australia otherwise than by the importer;
- that the goods have been purchased by the importer from the exporter; and
- the purchases of the goods were arms' length transactions.

---

<sup>1</sup> All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901*



## Non-Confidential Version

Therefore, we consider that export prices for exports from CHINT to its Australian customers can be established under section 269TAB(1)(a).

Specifically, [REDACTED] export prices have been calculated for each export transaction (based on invoiced export prices less amounts for expenses incurred after the point of [REDACTED], which are summarised at **confidential appendix 1**).

## Non-Confidential Version

### 7 COST TO MAKE & SELL

#### 7.1 Introduction

In its response to the exporter questionnaire, CHINT provided cost to make and sell spreadsheets for its domestic sales and its export sales of power transformers that were delivered in the investigation period. The detailed cost to make and sell data was provided separately for each export sale to Australia, and for a selection of [REDACTED] domestic sales (out of [REDACTED] over the investigation period).

Before the verification visit, the Commission requested details cost to make and sell data for another [REDACTED] domestic sales selected by the Commission. We noted that the full cost to make and sell figure for each selected domestic sale matched the total cost to make and sell figure for each domestic sale shown in CHINT's Exhibit G-4.2 (Domestic CTMS – All models).

#### 7.2 Cost to make and sell

CHINT explained that:

- each power transformer is assigned a unique internal code, which is used for assigning direct costs and indirect manufacturing costs;
- variable manufacturing costs (raw materials and direct labour) are assigned directly to that internal code from each of the cost centres;
- direct labour costs are allocated to the internal code in accordance with the value of raw materials assigned directly to each internal code;
- fixed manufacturing costs (including all overheads and depreciation) are allocated to the internal code in accordance with the value of raw materials assigned directly to each internal code;
- selling, general, administrative and finance expenses are allocated to the internal code on the basis of sales revenue (note: selling expense includes transport expenses).

CHINT advised that its costs of raw materials include the value of any scrap that is generated in the production process, and that any income generated from the sales of scrap is reported with "revenue from other operations". In this respect, CHINT considered that the cost of scrap has been included in the cost to make and sell data reported at Exhibit G-4 but this has not been offset for income from scrap sales, which suggest the costs are slightly overstated.

CHINT also advised that in relation to its raw material costs for copper conductors, this generally reflects purchases made for use in a particular power transformer, while most other raw materials can be purchased into stock for use in production as required. Therefore, CHINT explained, the cost of the other raw materials that are assigned to the internal product code will be calculated as the weighted average of the cost of inventory as it is issued to production.

CHINT advised that none of its raw material suppliers are related parties.

## Non-Confidential Version

CHINT explained that it uses what might be described as a budgeted bill of materials (BOM), particular to each power transformer (identified by internal code) for the purposes of estimating its costs and developing a price for quotation purposes (called pricing worksheets). The pricing worksheets include detailed estimates of raw material usage (volumes), and raw material costs. Further discussion of the detail contained in the pricing worksheets is contained in the domestic sales section of this report. These pricing worksheets, and a comparison of the budgeted costs to actual costs, are discussed in further detail later in the cost to make and sell section of this report.

CHINT confirmed that the cost to make and sell data contained in the response to the exporter questionnaire, in Exhibit G-4 (Domestic) and G-5 (Export), are based on actual costs. In relation to all variable and fixed manufacturing costs, it advised that the data was extracted from the Yongyou accounting system, and represents costs assigned directly to each internal code. It further explained that the selling, general, administrative and finance expenses are allocated to the internal code on the basis of sales revenue.

### 7.3 Cost of production

#### 7.3.1 Reconciliation to financial statements

We asked CHINT to demonstrate how the cost of goods sold for its domestic and export sales of power transformers, contained in its Exhibits G-4 and G-5 reconciled up through management reports to the audited financial statements. We chose the year of 2012 for this verification exercise.

Firstly, using the data at Exhibit G-4 and G-5, CHINT sorted its total cost to make and sell data to show only the domestic sales and the exports to Australia that were invoiced in 2012.

In relation to the cost of domestic sales, it then demonstrated how the sum of the cost to make each of the power transformers could be traced to a detailed cost of goods sold ledger for transformers, taking account of the costs for non-GUC in 2012. CHINT provided a copy of its detailed ledger for cost of goods sold to support its calculations. We noted that the sum of the cost of goods sold in the detailed ledger matched a summary worksheet for Transformers that showed the total transformer cost of goods sold as well as a dissection between the GUC and non-GUC (as manually compiled by CHINT). We noted the cost of goods sold for power transformers was around █████% of total "Transformer Division" domestic sales value for 2012. This was reasonably consistent with the proportion of revenue (█████%) demonstrated in the reconciliation of sales value). Copies of CHINT's cost of goods sold detailed ledger and the summary worksheet for domestic sales are at **confidential attachment CTMS 1**.

In relation to export sales of power transformers to Australia, CHINT demonstrated a similar connection between its G-5 cost to make data and the cost of goods sold for "Internal sales". As discussed earlier, CHINT export transactions are all transferred to the "International Trade Division". In this case, CHINT provided a detailed sub-ledger for the cost of goods sold for internal sales. We noted the total of this sub-ledger matched the total of cost of goods sold shown in the summary worksheet,

## Non-Confidential Version

which again showed the total transformer cost of goods sold as well as a dissection between the GUC and non-GUC (as manually compiled by CHINT). Copies of CHINT's cost of goods sold detailed sub-ledger for internal sales (exports) and the summary worksheet for export sales to Australia are also contained at confidential attachment CTMS 1.

CHINT explained that the revenue for transfers of export products to the International Trade Division needed to be taken into account before balancing the cost of goods sold data to the figure shown for the Transformers Division. These calculations were all clearly identified in the summary worksheet at confidential attachment CTMS 1.

CHINT then demonstrated how its monthly Income Statements for the Transformer Division could be used to show the sum of the monthly costs of goods sold matched the summary worksheet costs of goods sold for the "Transformer Division" (taking account of cost of goods sold for domestic sales, export sales [internal transfers], GUC and non-GUC). These figures were summed with the equivalent figures for the "High-Voltage Switchgear Division" to arrive at costs of goods sold for the "Transformers and High Voltage Switchgear" Division. CHINT then showed how this cost of goods sold figure was added to the cost of goods sold for other Divisions to arrive at the total cost of goods sold for CHINT, as shown in the audited financial statements for 2012. Copies of summary worksheets and the monthly Income Statements for the "Transformers Division" are also at confidential attachment CTMS 1.

Having regard to the above, we were satisfied that the costs of production reported by CHINT, relating to its domestic sales and exports to Australia in the investigation period for power transformers (at its Exhibits G-4 and G-5), was reasonably complete and accurate.

### 7.3.2 Verification to source documents

Prior to the visit we advised CHINT that we wanted to verify, with reference to source documents, selected cost components for power transformers sold on the domestic market and exported to Australia. Indeed, for [REDACTED] selected power transformer transactions, [REDACTED], we asked for detailed costing information to support the costs of selected raw materials, direct labour, and manufacturing overheads. The verification of these selected elements for costs of production is detailed below in relation to the selected transaction for export to Australia. The selected transaction pertains to contract number [REDACTED] (or invoice number [REDACTED]). That discussion is followed up by a summary of a similar exercise that was undertaken with respect to the selected domestic transaction.

#### Raw materials – Core steel

CHINT provided a copy of a report called "*Detailed list of raw materials to production line*", which was particular to the internal code for the selected transaction. This report identified each raw material consumed in the production of the selected power transformer. We noted the total cost of raw materials (including core steel) in this document matched the figures reported in Exhibit G-5.

## Non-Confidential Version

CHINT identified the cost component for core steel (which represented approximately █% of total raw material costs for that unit). CHINT also provided a copy of the “*Core Steel Cost Calculation Sheet*” for the month of August 2012, which was the month that core steel was ‘issued to production’ for manufacture of the selected unit. We noted that this calculation sheet contained budgeted and actual costs, and that the actual costs matched those reported in Exhibit G-5 for core steel costs. Copies of the “*Detailed list of raw materials to production line*” and “*Core Steel Cost Calculation Sheet*” reports are at **confidential attachment CTMS 2.**

CHINT also provided a copy of its “*Workshop report*” for August 2012 that identified the product code and unit cost of the particular type of core steel used in the manufacture of the selected unit. With reference to the product code, CHINT traced the unit cost back to an inventory report as the unit price relevant to “issues to production” from inventory for that month. We noted the inventory report identified the product code for the particular type of core steel drawn down from stock, as well as volume and value data for beginning stock, purchases, issues to production, and closing stock. CHINT then provided a schedule of its core steel purchases for July and August 2012. We noted that the sum of █ purchases of core steel (with the matching core steel product code) matched the volume and value shown in the purchases column of the workshop report. We requested, and CHINT provided, copies of tax invoices and evidence of payment to support the cost of the core steel purchases. This information also matched the core steel cost data contained in the other documents. Copies of CHINT’s “*Workshop report*”, inventory report, schedule of core steel purchases, invoices and evidence of payment are all contained at **confidential attachment CTMS 3.**

### Raw materials – Copper conductors

CHINT showed us the amounts for copper conductor costs on the “*Detailed list of raw materials to production line*” (at CTMS 3), which were particular to the internal code for the selected transaction. We noted the total cost of raw materials (including copper conductors) in this document matched the figures reported in Exhibit G-5. In this transaction, the cost of copper conductors represented approximately █% of total raw material costs for that unit.

As explained earlier, copper conductors are purchased specifically for each power transformer manufactured. Therefore, CHINT used the report called “*Detailed list of raw materials to production line*” to identify the various material codes for the copper conductors purchased for the selected transformer. CHINT then provided copies of its Inventory ledger for copper conductors – although it should be noted that only the “purchases” and “issues to production” columns, with the same values shown on both, were utilised █.

CHINT then provided a copy of an extract from its purchases ledger for copper conductors. In relation to one supplier, it then provided copies of invoices and evidence of payment to demonstrate the amounts paid for the copper conductor purchases. We noted that the trail of documents was complete but related to a material code that was not used in relation to the selected transaction. We therefore asked for copies of source documents in relation to one of the relevant material codes. CHINT provided further copies of the Inventory ledger, another purchase

## Non-Confidential Version

ledger (different supplier), and copies of invoices – all were supportive of the copper conductor cost shown for the selected transaction.

Copies of the documents provided in support of the costs for copper conductors are at **confidential attachment CTMS 4**.

### Raw materials – mild steel

CHINT showed us the amounts for mild steel costs on the “*Detailed list of raw materials to production line*” (at CTMS 3), which were particular to the internal code for the selected transaction. We noted the total cost of raw materials (including mild steel) in this document matched the figures reported in Exhibit G-5.

CHINT identified the cost component for mild steel (which represented approximately █% of total raw material costs for that unit). CHINT also provided a copy of the “*Core Steel Cost Calculation Sheet*” for the month of August 2012, which was the month that mild steel was ‘issued to production’ for manufacture of the selected unit. We noted that this calculation sheet contained budgeted and actual costs, and that the actual costs matched those reported in Exhibit G-5 for mild steel costs. Copies of the “*Detailed list of raw materials to production line*” and “*Core Steel Cost Calculation Sheet*” reports are at confidential attachment CTMS 3.

With reference to the product code, CHINT traced the unit cost back to an inventory report as the unit price (weighted average) relevant to “issues to production” from inventory for that month. We noted the inventory report identified the product code for the particular type of mild steel drawn down from stock, as well as volume and value data for beginning stock, purchases, issues to production, and closing stock.

CHINT then provided a purchases ledger and “workshop report” for its core steel purchases for August 2012. We noted that the sum of two purchases of mild steel (with the matching mild steel product code) matched the volume and value shown in the purchases in the inventory report for a particular material code. We requested, and CHINT provided, copies of tax invoices and evidence of payment to support the cost of the mild steel purchases.

Copies of CHINT’s “Workshop report”, inventory report, schedule of mild steel purchases, invoices and evidence of payment are all contained at **confidential attachment CTMS 5**.

### Direct Labour and manufacturing overheads

CHINT provided monthly schedules of production costs that separately identified the cost of raw materials, direct labour, and manufacturing overheads (including depreciation) attributable to each unique internal product code. CHINT explained that for the selected transaction it was necessary to sum up the totals for September, October and November in order to arrive at the full cost to make the selected transformer. In doing so we noted the sum matched the amount show in Exhibit G-5 as the total cost to make the selected transformer.

## Non-Confidential Version

CHINT, explained, and it was evident in the calculations, that direct labour costs and manufacturing overheads (including depreciation) were being assigned to the internal codes on the basis of the proportion of raw material costs consumed for that internal code.

CHINT explained this approach to assigning direct labour and manufacturing overheads was a well-established practice for CHINT and to its knowledge is a reasonably common approach for assigning such costs in a job costing context.

We sought to test whether the approach was being applied consistently for power transformers and goods not subject to the investigation. With reference to the same documents, CHINT demonstrated instances where non-GUC products were being assigned labour and overhead costs in the same manner.

Copies of the documents supporting the cost of direct labour and manufacturing overhead costs (including depreciation) are at confidential attachment CTMS 3.

### Domestic package – raw materials, direct labour and manufacturing overheads

As requested, CHINT also provided source documents to support the costs of production for the selected domestic sale of a power transformer.

The package of information it supplied included the:

- Contract;
- “*Detailed list of raw materials to production line*”
- “*Cost Calculation Sheets*” for core steel, copper conductors and mild steel; and
- monthly schedules of production costs that separately identified the cost of raw materials, direct labour, and manufacturing overheads (including depreciation)

The supporting documentation agreed with the cost of production data shown for the selected transformer at CHINT’s Exhibit G-4. Copies of the documents supporting the cost of raw materials, direct labour and manufacturing overheads for the selected domestic sale are at **confidential attachment CTMS 6**.

### Comparison of budgeted and actual costs of production

As a further check of the completeness, relevance and accuracy of the CHINT costs of production, we also compared the budgeted and actual costs of production for each contract for power transformers exported to Australia in the investigation period. Specifically, we focused on the variances in cost (from budgeted) for core steel, mild steel, conductors and oil. We noted the actual costs were sometimes higher and sometimes lower than the budgeted costs over the investigation period, with no apparent pattern or trend. In relation to a few instances where the actual cost varied significantly to the budgeted costs, CHINT provided a reasonable explanation. The comparisons of the budgeted and actual costs of production are at **confidential attachment CTMS 7**.

### Conclusion - cost of production

## Non-Confidential Version

Having regard to the discussion above and the evidence provided in support of CHINT's cost to make power transformers, we are satisfied that the data provided by CHINT at its Exhibits G-4 and G-4 is reasonably complete, relevant and accurate.

### 7.4 Selling, general/administrative and finance expenses

CHINT explained that to determine selling expenses (including transport expenses), general/administration costs, and finance costs (including foreign exchange losses), in its Exhibits G-4 and G-5, it allocated such costs on the basis of sales revenue. We noted that the supporting calculations provided by CHINT indicated that such calculations were done so on a monthly basis.

We asked CHINT to explain how the figures were calculated, with particular reference to domestic expenses incurred in 2012. CHINT provided a spreadsheet that set out its monthly selling expenses (including transport expenses), general/administration costs, finance costs (including foreign exchange losses), and revenue. It demonstrated how, for 2012, the sum of each of these categories reconciled with the corresponding expense and revenue items in the Income Statement (at CTMS 1), which was also consistent with the audited financial statements. A hard copy summary of the expenses and monthly sales values is at **confidential attachment CTMS 8**.

We noted that the fluctuations in CHINT's monthly expenses were considerable (eg. selling expenses from month to month over 2012 ranged from ■■■ to ■■■% of monthly revenue), and we considered it would be more reasonable to allocate such expenses on a half-yearly or yearly basis. We used the CHINT spreadsheet to calculate half-yearly and yearly rates to cover the investigation period. We indicated it was our preference to determine CHINT's selling expenses (excluding domestic transport), general/administration costs, finance costs (including foreign exchange losses) in accordance with these allocations.

We removed transport expenses because we decided that it was preferable to construct normal value to the point of ex-warehouse (EXW). The reason for this decision is contained in the normal value section of this report. To ensure the correct amount of domestic transport expenses was being removed from the selling expense category we asked for evidence to support that subset of selling expenses. CHINT provided a copy of its sub-account for freight expenses for the Transformers Division that covered the entire investigation period. We noted that the total for the period matched the total in the spreadsheet. The copy of the sub-account for freight expenses is at **confidential attachment CTMS 9**.

In addition to the expense items allocated by CHINT, we noted that certain Income Statement expenses had not been allocated to the goods. Non-operating expenses was an example, but it was evident in this case that it was far outweighed (both in 2011 and 2012) by a corresponding income item – non-operating revenue. We explained we would not allocate such an item (net income) to the cost to make and sell the goods unless CHINT could explain why that was appropriate. However, in the case of an expense called “asset impairment losses” we explained that we would allocate that to the goods unless CHINT could explain why it was not appropriate to do so. CHINT did not object to the allocation.



## Non-Confidential Version

Therefore, the final calculation of selling expenses (excluding domestic transport), general/administration costs, finance costs (including foreign exchange losses), and asset impairment losses was as follows:

	Jul-Dec 2010	2011	2012	Jan-Jun 2013
<b>Selling expenses</b>	████	████	████	████
<b>Administration and general expenses</b>	████	████	████	████
<b>Finance expenses</b>	████	████	████	████
<b>Asset impairment losses</b>	████	████	████	████
<b>Total (as % of revenue)</b>	████	████	████	████

\* Note: 2010 and 2013 asset impairment losses were based on the weighted average of 2011 and 2012

Based on the direct connection to the Income Statement and the audited financial statements, and the reasonable basis for allocation, we are satisfied that the allocation of selling expenses (excluding domestic transport), general/administration costs, finance costs (including foreign exchange losses), and asset impairment losses is reasonably complete relevant and accurate.

A copy of the revised calculations of these expenses is at **confidential appendix 2**.

### 7.5 Cost to make and sell – summary

We are satisfied that sufficient information was provided and verified to substantiate the cost to make and sell data submitted by CHINT. Specifically, we consider the CHINT cost to make and sell data is suitable for:

- determining a rate of profit for domestic sales; and
- determining constructed normal values.

The Australian cost to make data is included in the constructed normal value calculations spreadsheet, which is at **confidential appendix 5**. The revised domestic cost to make and sell data is at **confidential appendix 3A**, and cost to make and sell information for selected sales is at **confidential appendix 3B**.

## Non-Confidential Version

### 8 DOMESTIC SALES

#### 8.1 General

CHINT explained that its sales of power transformers on the domestic market in China are generally to companies involved in power and utility supply; mining; and manufacturing. CHINT explained that the price will not be affected by the nature of the customer.

CHINT advised that the domestic market for power transformers is highly competitive and has been in over-supply for a considerable period. CHINT estimates its market share in the Chinese market may only be around [REDACTED]% and that it may not even be in the top [REDACTED] (by volume) suppliers in China. CHINT understands there to be very few if any imports of power transformers due to the highly competitive domestic market.

CHINT explained that when providing quotes for the production and supply of power transformers in China it is often required to provide second, and sometimes third and fourth quotes, each time reducing the price from its original quote. For this reason, CHINT explained the margins in domestic sales are very slim, and sometimes the sales are loss making when compared to a full cost to make and sell.

CHINT advised that it will often aim for a gross margin over raw materials of [REDACTED]% for domestic sales, while export sales can often achieved [REDACTED]%.

When asked about any price lists, CHINT explained that it does not have one because of the large number of variables that arise in the differing specifications of power transformer requirements. CHINT explained that it has a pricing worksheet which is used to quote a price, and that the underpinning calculations are based on the particular specifications and performance requirements of the power transformer for which it is building a quote.

CHINT provided a copy of a blank pricing worksheet and, after translation of all line items; it was evident that all raw materials were factored in. We noted that while very specific estimates of raw material requirements (volume and price) were made for some items (eg. [REDACTED]), there were also less precise estimates that were based on percentages of the raw material quantities already estimated for more substantive raw material requirements (eg. [REDACTED]). We also noted that a gross margin was added to arrive at a price for quotation. CHINT explained that the margin must cover direct labour, manufacturing overheads, SG&A and profit.

We asked for a copy of a completed pricing worksheet for a domestic transaction that we selected. CHINT provided this (for Invoice 14649159) and we noted the margin factored in was [REDACTED]% of the raw materials cost estimate. Copies of the blank pricing worksheet and the completed one for the selected invoice are at **confidential attachment DOM 1**.

CHINT stated that it did not provide any discounts, rebates or commissions in relation to its domestic sales of power transformers during the investigation period.

## Non-Confidential Version

### 8.2 Domestic sales process

CHINT explained that the sales process typically proceeds as described below.

- marketing people contact potential buyers and relay information to CHINT;
- CHINT assesses the potential customers including a check of credit worthiness;
- customers assess CHINT which may include some certification process;
- sales are usually secured through a tender process;
- It is rare that sales are simply ordered without some tender process, other than the repeat customer sales for same models;
- CHINT prepares tendering documents, including a quote based on its pricing worksheet (discussed above);
- CHINT will often be provided second and sometimes more opportunities to bid down its original price;
- quotes will include details of terms (delivery/credit terms, and a schedule of progress payments), noting all CHINT's domestic prices include delivery (based on freight company quote obtained at time of developing quote);
- customer awards contract and then together with successful supplier signs the contract for supply (after which price cannot and does not change);
- design and production commences in time to ensure CHINT can meet desired delivery dates;
- some raw materials are purchased specifically for the particular job (eg. copper conductors) – CHINT noted that any change in raw material price between the time of quoting and the time of purchasing is at CHINT's risk.
- progress payments are made by telegraphic transfer in CNY;
- once goods are completed, testing is undertaken, then it is disassembled, packed, and delivered to customer;
- invoices are only issued once for each power transformer sold, despite the progress payment schedule (see further discussion below);
- invoices are issued at the time of delivery to customer

We asked CHINT what factors have the major effect on price. CHINT considered the major factors were:

- raw materials (in particular core steel, copper conductors, mild steel, oil, insulation material);
- components (eg. Tap changers can be highly variable);
- technical specifications (eg. efficiency, losses, impedance, temperature rise);
- packing (eg. Export cost of packing can be slightly higher than for domestic due to the additional materials to ensure suitability for overseas transport)

### 8.3 Verification to source documents

As discussed earlier in this report, we were able to trace the domestic sales data through management accounts to audited financial statements and thereby gain satisfaction around the completeness and relevance of the detailed transactional data. This section describes how we sought to link the detailed transactional data to

## Non-Confidential Version

source documents to reinforce our findings of relevance and to gain satisfaction around the accuracy of the transactional data.

Prior to the visit we selected [REDACTED] domestic transactions for verification to source documents. We communicated the listing of selected sales to CHINT when providing the agenda, and we asked for certain source documents to be provided at the visit.

At the verification meetings, CHINT provided copies of the following documents (where applicable) to support each one of the selected domestic sales:

- Purchase contract;
- Notification of tender award;
- Tax invoices
- Proof of payment (multiple payments)

Copies of these documents for all 12 selected domestic transactions are at **confidential attachment DOM 2**.

We verified that the key data in the domestic sales spreadsheet (including sales volumes and values, delivery and payment terms/schedules, goods description) reflected the data in the source documents provided. Based on the transactions examined, we are satisfied that the invoice price shown in the domestic sales spreadsheet accurately reflected the price paid by domestic customers. However, while the domestic sales data showed the required composition of progress payments (eg [REDACTED], it was not clear from the domestic sales data spreadsheet when these progress payments were due. This issue is discussed further in the Adjustments section of the report.

We asked CHINT to provide evidence of the domestic inland freight charges it had recorded in respect of each of its domestic sales in the domestic sales spreadsheet at its Exhibit D-4. CHINT explained these figures were inland transport expenses that were allocated to each transaction based on revenue. We asked CHINT to provide details of the actual freight charges for the selected domestic sales so we could compare these with the allocated amounts. CHINT provided evidence in the form of account ledgers for transport expenses and tax invoices, which are at **confidential attachment DOM 3**.

We noted that the actual expenses were not close reflections of the allocated amounts for inland transport in the domestic sales spreadsheet. We informed CHINT that if it was unable to account for such amounts more accurately then we may need to calculate dumping margins at the ex-works level so that export price and constructed normal value were both established without regard to inland transport charges. CHINT agreed that was a reasonable approach.

### 8.4 Arms' length

CHINT submitted that all of its domestic sales are to customers that are unrelated. During the visit, we found no evidence in relation to CHINT's domestic sales that:

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

## Non-Confidential Version

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

We therefore consider CHINT's domestic sales of power transformers are arm's length transactions.

### 8.5 Ordinary course of trade and profit on domestic sales

Issues Paper 2014/01 (<http://www.adcommission.gov.au/cases/documents/102-Report-Issuespaperforpowertransformers20141.pdf>) provides a proposed position of the Commission in relation to what profit to use when constructing normal values for the exporters of power transformers. The proposed position also explains the relevance of the ordinary course of trade provisions in the context of the power transformers case:

*"The ordinary course of trade provisions are at s. 269TAAD and an important element of those provisions is determining whether the cost of goods sold at a loss are recoverable within a reasonable period. The recovery test is at s. 269TAAD(3). In the case of power transformers, each unit is uniquely constructed and the costs and prices can differ significantly from one model to another. Indeed, it is the inability to make reasonable adjustments to prices of models sold domestically, to ensure fair comparison with export prices, that explains why the ADC will not establish normal values on the basis of domestic selling prices (s. 269TAC(1)). Furthermore, the ADC considers that a "weighted average cost" of goods contemplated in s. 269TAAD(3) cannot be meaningfully calculated for power transformers. Consequently, the recovery test cannot be conducted meaningfully and the ordinary course of trade test cannot be fulfilled. Accordingly the ADC considers it is not reasonably possible to work out the profit on the sale of the goods made in the ordinary course of trade in accordance with Regulation 181A(2).*

*The ADC considers that it is therefore necessary to work out the profit for use in constructed normal values using one of the provisions in regulation 181A(3). The ADC notes there is no hierarchy, and each of these alternatives is equally available.*

*At this stage, the ADC intends to determine a profit in accordance with Regulation 181A(3)(a) which refers to the actual amounts realised by the exporter from the sale of the same general category of goods in the domestic market of the exporting country. The ADC considers that the sales of like goods are such a high proportion of the same general category of goods that it is reasonable to assume that the amounts realised on sales of like goods, and sales of the same general category of goods, are in very close proximity."*

## Non-Confidential Version

Accordingly, we have not undertaken any assessment of ordinary course of trade in terms of section 269TAAD(3).

In relation to determining the rate of profit suitable for use in constructed normal values, we have calculated the actual amount of profit realised by the exporter in relation to domestic sales of power transformer subject to the investigation. The profit rates for each year of the investigation period are as follows:

Period	Profit on sales (%)	Profit on CTMS (%)
July to December 2010	■	■
2011	■	■
2012	■	■
January to June 2013	■	■

### 8.6 Domestic sales – summary

We found the price paid for the goods in those domestic sales was established satisfactorily and the domestic sales data provided by CHINT at its Exhibit D-4 is reasonably complete, relevant and accurate.

Based on the information provided by CHINT, and the verification processes conducted on site, we are satisfied that domestic sales are arm's length transactions. For the reasons outlined in the section above, we have not made an assessment of ordinary course of trade. However, we consider the CHINT domestic sales data is suitable for use in comparison to its cost to make and sell data to determine amounts for profit actually realised over the investigation period.

The CHINT Domestic sales spreadsheet with our calculation of profit margins is at **confidential appendix 4**.

## Non-Confidential Version

### **9 THIRD COUNTRY SALES**

We informed CHINT that we intended to construct normal values and that, in doing so, we would not rely on third country sales for any element of these calculations unless CHINT considered there was good reason to do so. CHINT expressed no objection to the intended approach and it indicated its view that third country sales were not suitable for determining normal values in this case.

## Non-Confidential Version

### 10 ADJUSTMENTS

#### 10.1 General

CHINT did not complete Section E of the exporter questionnaire. At the visit, CHINT explained this was because it did not consider any adjustments were necessary to a constructed normal value that is compared to export price on an Ex-works basis.

As we have constructed the normal values at delivery terms of ex-works, and we compared these with ex-works export prices, we consider there is no requirement to adjust for differences in inland transport charges.

Also, given that we constructed normal values based on the specific costs of production of the power transformers exported to Australia, we consider there is no need to adjust for any physical differences between export and domestic sales.

It appears that the only issues that require consideration for adjustments to the constructed normal value, to ensure it is properly comparable to export price, are:

- the difference in export and domestic credit terms; and
- export VAT rebate

#### 10.2 Credit terms

As discussed earlier in this report, we noted that it was not possible from the domestic sales data to establish when each payment was made for each payment instalment required by the contract, for each power transformer. In relation to export sales, on the other hand, we had gathered sufficient information to evidence the payments of the goods such that we could calculate the weighted average credit terms for each sale. Refer **confidential attachment ADJ 1** for the Excel Worksheet that contains calculations of the credit terms.

In relation to domestic sales we explained to CHINT that we were not in possession of sufficient information to make a downwards adjustment to the constructed normal value for any component of price that reasonably reflects the opportunity cost of the domestic credit terms (assuming that is a reasonable measure of the effect on price). We explained we would therefore make no such downwards adjustment, but that this would not preclude us from making the upwards adjustment for export credit terms. CHINT understood and indicated that it would be too burdensome to extract the payment information for domestic sales, and it stated it had no objection to us making the upwards adjustment for export credit while not making any offsetting downwards adjustment for domestic credit.

We asked CHINT for some evidence of a short term interest rate that would be suitable for the use of calculating the opportunity cost of it extending export credit terms. CHINT suggested we use the short term loan (less than 6 months) rates published by the People's Bank of China as this was readily available for the investigation period.

In addition, CHINT provided evidence of one of its short-term loans in 2012 that was subject to a rate that was marginally lower than the rate published by the bank



## Non-Confidential Version

nominated, for the corresponding period. Accordingly, we considered it was reasonable to rely upon the rate published by the bank, although we chose the highest rate in the investigation period of ■% as we were provided insufficient evidence to be satisfied any lower rate was necessarily applicable.

Copies of the documents supporting the adjustment for export credit terms are at **confidential appendix ADJ 2**.

### 10.3 Export VAT rebate

In cases involving goods exported from China, the Commission will consider an upwards adjustment to the normal value to account for any residual amount of export VAT that is payable in relation to the exported goods. This is because the residual amount of VAT represents a cost incurred in relation to exported goods that is not applicable to domestic sales of like goods.

In the case of power transformers, CHINT explained that the amount of the rebate is equal to the amount of the export VAT – i.e. both rates being 17% - throughout the investigation period. CHINT provided copies of extracts from the Customs Import and Export Tariff of the People's Republic of China for 2011, 2012, 2013. These documents indicated that the VAT rebate on exports was indeed 17% in each year.

As the rate of export VAT rebate is the same as the rate of export VAT, we consider there is no residual export VAT payable. As such, we consider there is no impact on the comparability of the export price with the constructed normal value (which excludes VAT).

Copies of the extracts from the Customs Import and Export Tariff of the People's Republic of China for 2011, 2012, 2013 are at **confidential attachment ADJ 3**.

## Non-Confidential Version

### 11 NORMAL VALUE

Normal values have been constructed using the cost to make power transformers exported to Australia by CHINT, plus SG&A expenses on the assumption that the goods, instead of being exported, were sold domestically<sup>2</sup>. A rate of profit has been added using data related to the production and arm's length sales of like goods over the investigation period<sup>3</sup>.

In using costs to make and sell as the basis for normal values, we consider that one adjustment (for export credit terms)<sup>4</sup>, is necessary to ensure fair comparison of normal values with export prices.

A summary of constructed normal value calculations is at **confidential appendix 5**.

---

<sup>2</sup> Section. 269TAC(2)(c) of the Act

<sup>3</sup> Regulation 181A(3)(a) of the Customs Regulations 1926

<sup>4</sup> Section 269TAC(9) of the Act

## Non-Confidential Version

### 12 DUMPING MARGIN – PRELIMINARY ASSESSMENT

In calculating the dumping margin we compared each export transaction with the corresponding normal value. The weighted average product dumping margin is negative XXX% [size of the negative margin exceeds minus 5%]. The dumping margin calculation is at **confidential appendix 6**.

## Non-Confidential Version

### 13 LIST OF APPENDICES AND ATTACHMENTS

Confidential appendix 1	Export prices
Confidential appendix 2	CHINT selling, general/administration and finance expenses
Confidential appendix 3A	Domestic CTMS All Models Revised
Confidential appendix 3B	CTMS for exported goods
Confidential appendix 4	CHINT domestic sales and profit
Confidential appendix 5	Constructed normal value calculations
Confidential appendix 6	Dumping margin calculations
Confidential attachment GEN 1	CHINT Group internal organisation structure
Confidential attachment GEN 2	CHINT Brochure
Confidential attachment GEN 3	Production process
Confidential attachment GEN 4	Chart of Accounts of CHINT
Confidential attachment GEN 5	Audited financial statements of CHINT of 2011 and 2012
Confidential attachment DOM 1	Example of supplementary requirement
Confidential attachment DOM 2	Domestic sales ledger summary worksheet
Confidential attachment DOM 3	Sales ledgers and tax invoices for April 2012
Confidential attachment DOM 4	Transformers Division monthly income statements
Confidential attachment DOM 5	Summary of all divisions' revenues and income statements
Confidential attachment EXP 1	Export sales summary and monthly sales records
Confidential attachment EXP 2	Supporting documents for all export sales
Confidential attachment CTMS 1	Ledger and summary worksheet for domestic sales
Confidential attachment CTMS 2	Reports for raw materials and core steel calculation sheet
Confidential attachment CTMS 3	CHINT workshop report information package
Confidential attachment CTMS 4	Supporting documents for costs of conductors
Confidential attachment CTMS 5	Supporting documents for costs of mild steel
Confidential attachment CTMS 6	Supporting documents for costs of selected domestic sales
Confidential attachment CTMS 7	Comparisons of the budgeted and actual costs of production
Confidential attachment CTMS 8	Summary of the expenses and monthly sales values
Confidential attachment CTMS 9	Sub-account for freight expenses
Confidential attachment DOM 1	Pricing worksheet sample and completed one
Confidential attachment DOM 2	Documents for selected domestic transactions
Confidential attachment DOM 3	Documents for transport expenses and tax invoices
Confidential attachment ADJ 1	Credit adjustment calculation
Confidential attachment ADJ 2	Supporting documents for export credit terms
Confidential attachment ADJ 3	Customs Import and Export Tariff of the People's Republic of China for 2011, 2012, 2013