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Australian Government

Australian Customs and Border Protection Service

R E P O R T

INVESTIGATION INTO THE ALLEGED DUMPING OF CERTAIN ELECTRIC CABLE

EXPORTED FROM

THE PEOPLE'S REPUBLIC OF CHINA

VISIT REPORT - AUSTRALIAN INDUSTRY

OLEX AUSTRALIA PTY LTD

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT THE FINAL POSITION OF CUSTOMS AND BORDER PROTECTION

December 2011

1 CONTENTS

2 BACKGROUND

2.1 The application

On 11 August 2011, Advance Cables Pty Ltd (Advance), Olex Cables Pty Ltd (Olex) and Prysmian Power & Telecom Cables & Systems Pty Ltd (Prysmian) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of certain electric cables[1] exported to Australia from the People's Republic of China (China).

The applicants subsequently provided further information in support of their application. As a result, Customs and Border Protection restarted the 20 day period for considering the application on 1 September 2011.

The investigation was initiated on 9 September 2011. Public notification of initiation of the investigation was made in *The Australian* on 30 July 2010. Australian Customs Dumping Notice No. 2011/40 provides further details of this investigation and is available at www.customs.gov.au.

There have been no previous anti-dumping investigations involving electric cable.

2.2 Purpose of visit

We explained to Olex that the purpose of our visit was to:

- obtain general information about the Australian market for electric cables;
- gain a greater understanding of the company's manufacturing, marketing, sales and distribution processes;
- verify information provided in the application relating to the company;
- obtain additional financial data to assist in the analysis of the claimed injury to the Australian industry;
- give the company the opportunity to provide any further comments or raise any further issues it believed relevant to the investigation; and
- discuss and gather data relevant to establishing an unsuppressed selling price.

2.3 Contact details

Company:	Olex Australia Pty Ltd
Address:	207 Sunshine Road, Tottenham VIC 3012
Telephone:	(03) 9281 4459
Email:	gerard.buckle@nexans.com.au
Date of visit	4 – 7 October 2011

[1] Refer to the full description of the goods in section 4.1 of this report.

The following were present at various stages of the interview.

Olex	Mr Graeme W. Moncrieff, Country Manager & Managing Director Mr Gerard Buckle, Chief Financial Officer Mr Tony Dunstan, General Mangager Sales and Marketing Mr Lee Bennett, Accounting Manager - Manufacturing Mr Greg Stack, National Sales Manager - Building Ms Angela Raffaeke, Strategic Sourcing Manager Ms Cecile Barrere, Metal Risk Manager Ms Caroline Barbe, Logistics Project Manager Mr Anthony Alembakis, Finance Manager Mr David Meek, Strategic Procurement Manager Mr Bill Walsh, Operations Manager - Lilydale
Consultants	Mr Richard Farrell, Richard Farrell & Associates
Customs and Border Protection	Arthur Vlahonasios, Manager Operations 2 Carl Halpin, Supervisor Operations 2

2.4 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 2011;
- Customs and Border Protection will examine the Australian market from July 2007 for the purpose of analysing the condition of the Australian industry;
- A preliminary affirmative determination may be made no earlier than 8 November 2011 - provisional measures may be imposed at the time of the preliminary affirmative determination (**PAD**) or at any time after the PAD has been made, but Customs and Border Protection would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice;
- A statement of essential facts (**SEF**) will be placed on the public record by 28 December 2011 or such later date as the Minister allows - the SEF will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister and 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);
- Customs and Border Protection's report to the Minister is due no later than 13 February 2012 - should the Minister approve an extension to the SEF this would mean that the due date of the final report would also be extended - all interested parties would be notified and an Australian Customs Dumping Notice would be issued should an extension be requested and approved.

We explained to Olex that we would prepare a report of our visit. The report will be provided to the company 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.

3 COMPANY BACKGROUND

3.1 Company structure

Olex Australia Pty Ltd (**Olex**) produces various electrical cables from plants in Victoria (Lilydale and Tottenham). The goods subject to this investigation are produced at the Lilydale facility. Historically Olex was owned by the Pacific Dunlop group for approximately 40 years before being purchased by a private equity consortium around 1999. Olex representatives provided a diagram outlining the current ownership arrangements for the Olex group in Australia and New Zealand at **confidential attachment GEN-1** which demonstrated that Olex was owned by [redacted], which in turn was wholly owned by [redacted], which is owned by [redacted], a public company [redacted].

3.2 Exports of electric cables

Olex stated that it mainly focuses on selling electric cables to the domestic market while also exporting [redacted]. [export markets]

3.3 [redacted]-accounting practices

[redacted] [financing arrangements]

[redacted]. [banking arrangements]

Olex utilises SAP as its financial and management accounting system for sales and costing data as well as an in-house Cable Design System (**CDS**) to determine standard cable costings. Additionally, the payroll system is managed by an outsourced stand alone system.

4 THE GOODS

4.1 The goods

The goods the subject of the application are described as follows.

The goods under consideration are single and multi-core cables insulated with polymeric materials intended for use in electric installations at working voltages up to and including 1 kV with the following characteristics:

- *suitable for connection to mains power supply; and*
- *comply with Australian Standards AS/NZS 5000.1 or AS/NZS 5000.2.*

The goods under consideration fall into the following categories:

- *flat cables, insulated and sheathed, with two cores and earth and with conductor area up to three square millimetres;*
- *building wire, insulated, unsheathed, single core and with conductor area from two to three square millimetres; and*
- *single core double insulated cable, insulated and sheathed and with conductor area from 12 to 60 square millimetres.*

The applicants provided the following additional information in respect of the goods.

The cables consist of one or a number of copper conductors (or alternatively aluminium conductors) that are insulated with plastic material being either polyvinyl chloride (PVC) or cross-linked polyethylene (XLPE). The insulated conductor(s) may then individually or in plurality be further protected with a sheath material of PVC to complete the cable.

Tariff classification

The application states that the goods are classified to the tariff subheading 8544.49.20 (statistical codes 40 and 41) of Schedule 3 to the *Customs Tariff Act 1995*. Customs and Border Protection's Trade Services Branch confirmed that the goods are correctly classified to these tariff subheadings. The general rate of duty is currently 5%. Imports from China are subject to the DCS duty rate of 4%.

4.2 Domestic market for electrical cables in China

The application stated that there were no sales of like goods domestically in China. Olex explained the development processes for the Australian and International Standards for electrical cables to demonstrate why there may be no domestic sales of like goods within China. In summary, Olex believes that:

- Flat wire originated in the United Kingdom, however its use is relatively unique to the Australian and New Zealand construction markets due to the lighter construction methods employed when compared to Europe and;

- Flat wire is not used in China as single core insulated cables are fed around buildings via conduit. Such single core insulated cables are also produced by Olex, albeit in smaller volumes than flat wires.

Olex provided copies of [redacted] for electric cables at **confidential attachment GEN-2** to assist Customs and Border Protection in determining if there is a domestic market for the goods in China. [technical specification data]

4.3 Like goods

4.3.1 Comparison of locally produced and imported electric cables.

The applicants have demonstrated that:

- the physical characteristics of imported and locally produced electric cables are similar;
- the imported and locally produced electric cables are commercially alike as they are sold through the same distribution channels to common end users;
- the imported and locally produced electric cables are functionally alike as they have the same end-uses; and
- the imported and locally produced electric cables are manufactured in a similar manner.

Olex provided samples of seven cables subject to the application and a sample of imported cable to demonstrate the physical likeness of the goods. Images of the cables provided are at **confidential attachment GEN-3**.

4.3.2 Conclusion

Customs and Border Protection is satisfied that Olex is a member of the Australian industry producing like goods.

5 THE AUSTRALIAN INDUSTRY

5.1 Electric cables production process

Following is a brief description of the manufacturing process:

- Copper rod is fed into wire drawing machines to draw down copper wire;
- Copper wire strands are bunched together to form bunched / stranded conductors;
- Conductors are insulated in an extrusion process with either PVC or XLPE insulation materials;
- PVC is extruded over the outside of the cores to provide a protective sheath;
- The cable is then wound and packaged onto reels or spools via an automated process ready for despatch; and
- Printing of required information onto the cable is to be carried out during the winding process.

In addition to a comprehensive factory tour and demonstration, Olex provided video footage, explanatory diagrams and a power point presentation of the production process at **confidential attachment GEN-4**, **confidential attachment GEN-5**, and **confidential attachment GEN-6.**

5.2 Capacity, employment and annual turnover

Currently the plant is operating at a roster limited capacity of approximately [redacted] metres of flat cable per week. Capacity can be extended by increasing roster hours, to a maximum of approximately [redacted] metres of flat cable if staffed to [redacted] roster.

At the time of this report, Olex was unable to supply specific data on production capacity, other than rostering arrangements in its calculation of capacity.

6 AUSTRALIAN MARKET

6.1 Market size, condition and servicing of market sectors

Electric cables are used for the transmission of electrical power to safely transport electricity from the generation point to the end use. For example, lights, power tools, ovens, electrical motors and air conditioners. The exact application for each will be different but these products are used primarily in residential and commercial buildings as well as light industrial construction projects.

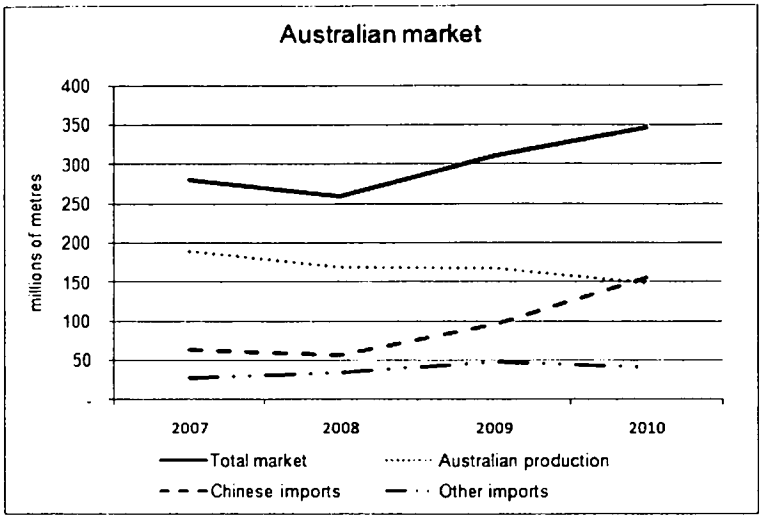
Electric cables can be broadly classified into the following market segments.

- Industrial cables are used in the oil, gas and mining sectors and are designed to survive in harsh environments such as water, oil, continuous flexing on cranes and lifts.
- Medium and high voltage cables are usually grouped together. Medium voltage starts at 11kV and goes to 33kV. High voltage cables are used for major power stations.
- The trade and installers segment is the largest and most competitive market for electric cables. These cables are classed as low to medium voltage and usually go from 450/750kV and can only be installed by a licensed electrician. Each state across Australia stipulates a licensed electrician must complete approved training before they can install electric cable in buildings and other facilities.

Demand in the trade and installer market is predominately driven by residential and commercial construction as well as well as the light industrial works industry. The residential market includes renovations, residential homes, town houses and units. The commercial construction sector is comprised of large apartment complexes, hospitals, factories, shopping centres, commercial refurbishments and multi story buildings.

The applicants state that the Australian market for electric cable in 2010 was over 300 million metres, with a value of about $250 million.

Customs and Border Protection estimated the size of the Australian market for electric cables from 2007 to 2010 using import data and information on sales by Australian manufacturers contained in the application.



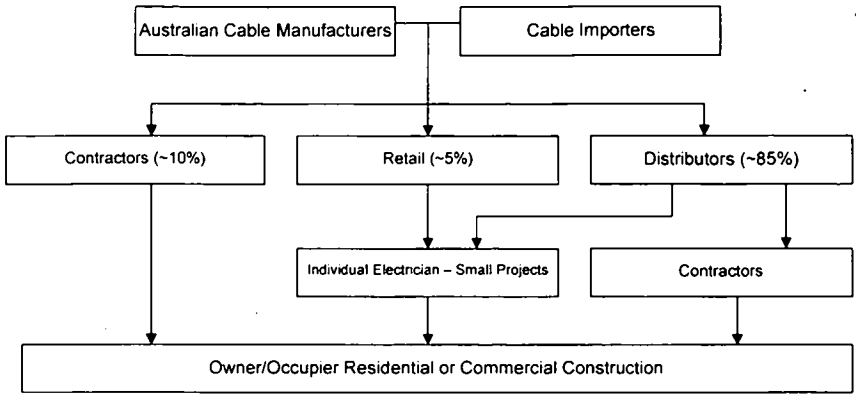
Olex explained that the flat twin and earth cables were the main sellers in the market, specifically product CNCP07. The price and availability of these cables are an important factor in customer decisions to purchase from a particular supplier.

6.2 Distribution arrangements

The major customers for the electric cables are electrical wholesalers and electrical contractors. There are five main electrical distributor groups, which when combined account for approximately 85% of the total building wire market. Companies are either wholly owned (for example [redacted] where they have 180 company stores) or buying groups made up of individual stores or small groups collaborating to purchase in bulk (such as the [redacted] buying group) (**confidential attachment SALES-1**).

Electrical cables are also sold at retail level via hardware stores such as Bunning's and Masters (Woolworth's Group). Traditionally this distribution channel accounted for of the market

The channel to market diagram provided in the application was discussed during the visit with the following revised diagram developed during the visit to account for the retail segment of the market.


Australian Cable Manufacturers
Cable Importers
Contractors (~10%)
Retail (~5%)
Distributors (~85%)
Individual Electrician – Small Projects
Contractors
Owner/Occupier Residential or Commercial Construction

7 SALES

7.1 Introduction

In its application, Olex provided Customs and Border Protection with a transaction by transaction detailed sales report for the nine models under consideration for the period of January 2010 to June 2011 (**Appendix A4**). At our visit we sought to reconcile this information, in particular for the period of July 2010 to June 2011, to source documents, such as invoices and proof of payment, to establish its accuracy and up to audited financial accounts and management reports, to establish its relevance and completeness.

7.1.1 Reconciliation

The **Appendix A4** sales listing and the sales volumes in the cost to make and sell (**CTMS**) spreadsheet provided as part of the application reconciled. It was noted that the **Appendix A4** sales data includes the sale of imported product. Olex advised that it was not possible to extract import sales from locally produced sales, as each shared the same product code. Customs and Border Protection has calculated that [redacted]% of Olex sales were of imported product.

7.1.2 Pricing

Pricing to customers is calculated [redacted]. [pricing strategy] Olex explained that to reduce the impact of [redacted]. Once a [redacted]. Olex provided an example of the price matrix at **confidential attachment SALES-2** and its historic [redacted] price report used to generate a weighted average cable price (**confidential attachment SALES-3**).

Olex provided [redacted] prices for all customers - a practice it believed was standard across the cable sales industry.

Olex has [redacted] with major wholesalers and buying groups which outline the terms of trade [redacted] available. Olex provided copies of these contracts for the past two years for major wholesalers at **confidential attachment SALES-4 to SALES-9**.

7.1.3 [redacted] [Trading terms]

Olex's major customers [redacted]

[redacted]

[redacted] **confidential attachment SALES-10 to SALES-12**. [a detailed discussion concerning customer sensitive trading terms]

7.2 Verification of domestic sales

7.2.1 Verification to source documents (accuracy)

Prior to the visit Customs and Border Protection selected the following transactions from the A4 sales listing for verification to source documents:

- 90077480
- 90117434
- 94002991
- 94000192
- 90187231
- 94001973
- 90060376
- 90043242
- 94003606
- 90097900
- 94002390
- 90049928
- 90145759

For these sales Olex provided Customs and Border Protection with the purchase order, invoice and proof of payment. These documents are at **confidential attachment SALES-13 to SALES-24**. Customs and Border Protection noted that. However the data presented in **Appendix A4** included correct [redacted] calculations for each transaction based on the [redacted] values presented in the relevant terms of trade contracts. This was verified by reference to the [redacted] applicable to individual customers (refer **confidential attachments SALES-4 to SALES-12**).

Invoices 94000192, 90060376, 90043242 and 94003606 were missing proof of payment due to the accounts data being archived. At the time of writing this report Olex was unable to provide this information. Customs and Border Protection found a number of abnormal transactions listed for large negative or positive values. It was found that these transactions reconciled with another either positive or negative

transaction. Olex provided credit notes and invoices for these transactions and explained that variances were invoicing errors that were subsequently corrected (**confidential attachment SALES-25** refers).

Despite the missing proof of payments for some transactions, Customs and Border Protection was satisfied that the information contained in the **Appendix A4** reconciled with the relevant invoices, purchase orders and where provided, proof of payment.

Therefore, Customs and Border Protection are satisfied that the **Appendix A4** sales listing were accurate.

7.2.2 Verification to financial accounts (relevance and completeness)

Customs and Border Protection sought to verify the sales listing to the financial accounts to check the relevance and completeness of the data. Olex produced a "BI" report of all SKU codes and corresponding volumes and sales. Customs and Border Protection noted that Olex had provided detailed **Appendix A4** data for the nine SKU's however there were 58 SKU's within the "BI" report where the goods' description aligned with the goods description for like goods. Further analysis (**confidential attachment SALES-26**) was conducted to determine the volume and value of goods not included in the **Appendix A4** sales data. Customs and Border Protection determined that 79% of like goods were included in the Appendix A4 sales data, including 84% of sales of flat cables.

Of the missing data, 44 of the SKU's each represent less than 0.50% of total sales. Key variations between the product SKU's were the colour of the cable and package length. At the time of the visit Olex were unable to extract sales and costs data for the missing SKU's.

To confirm the accuracy of the SAP Business Intelligence Report Customs and Border Protection reconciled **Appendix A4** data to a SAP "BI" report for product code CNCP07A1002WVAA for 2010 (**confidential attachment SALES-27**). A "BI" Report for all products was then produced and reconciled within 1% of the December 2010 Management Report at **confidential attachment SALES-28**. Olex explained the 1% variance due to the change over of data between its legacy system (BPCS) and SAP resulting in eight days worth of data not transferring across into SAP.

Audited financial statements for Nexans Australia Holding Pty Ltd were provided at **confidential attachment SALES-29** which includes both Olex and other Nexans Australia Holdings company's financial data. Olex provided a Nexans Australia Holdings Consolidated breakdown of sales for the 2010 at **confidential attachment SALES-30** which reconciled with both the December 2010 management report and the Nexans Australia Holdings audited financial statements for 2010.

7.3 Conclusion

Customs and Border Protection have verified the sales data contained in the application to source documents and audited financial statements and accordingly, are satisfied that the data provided was accurate and relevant. Customs and Border Protection also found that 49 SKU's were missing from the **Appendix A4** data

provided, representing 21% of total sales of like goods, thus is not yet satisfied that the data is complete. Despite the missing data, the domestic sales values, net of rebates and volumes for Olex for the nine SKU's under consideration over the period July 2010 to June 2011 is summarised in the table below:

Cable No.	Electra Cable Identifier	Olex Cable Identifier	Quantity (metres)	Price AUD/Metre
1	SRF3025V	CNCP07A1002WVAA	[redacted]	[redacted]
2	SRF3015V	CNCP05A1002WVAA	[redacted]	[redacted]
3	SR3010V	CNCP02A1002WVAA	[redacted]	[redacted]
4	SR1025V	BAAP07A1001AABK	[redacted]	[redacted]
5	SDI1160V	AABP15A1001WVBK	[redacted]	[redacted]
6	XLPE1160	BDBP15AA001CXNA	[redacted]	[redacted]
7	XLPE1250	BDBC17AA001CXNA	[redacted]	[redacted]
8	XLPE1350	BDBC18AA001CXNA	[redacted]	[redacted]
9	XLPE1500	BDBC19AA001CXNA	[redacted]	[redacted]

8 IMPORTS

Customs and Border Protection noted importations of cable by Olex across the injury analysis period. The following cables imported by Olex were verified to purchase orders and confirmed with Customs import databases as imported during the period July 2007 and June 2011:

Cable No.	Electra Cable Identifier	Olex Cable Identifier	Quantity (metres)
1	SRF3025V	CNCP07A1002WVAA	[redacted]
2	SRF3015V	CNCP05A1002WVAA	[redacted]
3	SR3010V	CNCP02A1002WVAA	[redacted]
8	XLPE1350	BDBC18AA001CXNA	[redacted]

Of these cables, 99.8% were imported between July 2007 and June 2010, prior to the investigation period. Sales data provided for the investigation period does however include the sales of imported product, of which Olex was unable to extract from domestic sales as they share the same Olex product codes. Customs and Border Protection calculated that during the investigation period, [redacted]% of sales were of imported product.

Olex explained that during 2008 and 2009 production of CNCP07A1002WVAA was at capacity, resulting in Olex importing product from Guilin to maintain supply to its customer base. Regular importations ceased at the end of August 2009.

Customs and Border Protection informed Olex during the visit that importations by Australian Industry are considered to be non-injurious during a dumping investigation.

9 COST TO MAKE AND SELL

Customs and Border Protection explained to Olex that we needed to be satisfied that the data submitted in the application was complete, relevant and accurate. We also explained that the company would have to demonstrate that the data could be verified and traced to financial statements and to source documents.

9.1 Cost to make and sell

Olex's amended **Appendix A6** contained data (totals and unit amounts) in relation to the cost to make and sell electric cable sold on the domestic and export markets and the costs of Olex's 'buy-in' sales of imported electric cable. The data was presented in monthly summaries for the period 1 January 2007 to 30 June 2011.

We sought to verify the relevance and completeness of this data by tracing it through management reports to the audited financial statements. We also sought to verify the accuracy of the data by tracing it to source documents.

To assist us in this task, Olex provided management accounts for the period ending 31 December 2011 (**confidential attachment COSTS-1**) and 30 June 2011 (**confidential attachment COSTS-2**)

9.1.1 Manufacturing costs

Olex's **Appendix A6** set out total costs by model (CNCP07A1002WVAA, CNCP05A1002WVAA, CNCP02A1002WVAA, BAAP07A1001AABK, AABP15A1001WVBK, BDBP15AA001CXNA, BDBC17AA001CXNA, BDBC18AA001CXNA, BDBC19AA001CXNA, GNHP07AA004OMAA), and by total in the cost categories of variable costs (including raw materials, direct labour and variable overhead) and fixed costs including overhead, which included depreciation charges. It divided these totals by the production volume to arrive at the unit manufacturing costs.

Production volumes

We sought evidence to support the production volumes recorded in **Appendix A6**. Olex explained that it could not provide actual production volumes for each of the models reported because of the size and resources required to generate such reports. Instead the company explained the methodology it applied to calculate the production volumes.

The company explained that it calculated the production volumes on a monthly basis as follows:

$$P = ((DS + ES) - IP) + (STCK^2 - STCK^1)$$

Where:

P = Monthly production volume (metres)

DS = Monthly domestic sales (metres)

ES = Monthly export sales (metres)

IP = Monthly import volume (metres)

$STCK^2$ = Closing stock month-end volume (metres)

$STCK^1$ = Opening monthly stock volume (metres)

To test the reasonableness of this approach, we asked the company to produce a production volume report for at least one product model. The company interrogated SAP for BDBP15AA001CXNA and produced a report a copy of which forms **confidential attachment COSTS-3**. The production volume amount recorded in the report ([redacted] metres) did not agree with the production volume recorded for CY 2010 in the worksheets supporting **Appendix A6** ([redacted] metres). The rate of difference was [redacted]%.

We considered the methodology applied by the company. We noted that we had verified the volumes of the monthly domestic and export sales and imports. Therefore, we concluded that, provided that the company was able to satisfy us of the accuracy and completeness of the opening and closing monthly stock volumes, then the production volumes provided reasonably reflected the actual production volumes generated across the period.

We requested copies of the opening and closing stock report from SAP for all products produced and reported within the Building & Industrial Division since 1 January 2010. We were able to identify each of the nine SKUs within that report. The company provided the reports, copies of which form **confidential attachment COSTS-4**. We compared the values contained in the reports to the worksheet supporting Appendix A6 (**confidential attachment COSTS-5**) and were able to reconcile the opening and closing stock volumes between the SAP reports and the worksheet supporting Appendix 6.

We then asked the company to reconcile the opening and closing stock volumes contained in SAP to the December 2010 monthly financial packs (**confidential attachments COSTS-1**). The company was able to reconcile to value of stock contained in the SAP report to the December 2010 monthly financial packs.

We were satisfied that the estimated production volumes contained in **Appendix A6** were reasonable.

Variable costs

Olex's **Appendix A6** showed monthly amounts for variable costs, which included raw materials, direct labour, direct expenses (including energy expenses, consumables, direct depreciation and insurance), variance adjustments and fixed expenses in the form of variable overheads. Olex also provided worksheets in the form of spreadsheets titled "SALES DATA", "PRODUCTION DATA" AND "P&L ADJ" (**confidential attachments COSTS-6, COSTS-7 and COSTS-8**).

We sought to trace the total variable costs to audited statements. The company explained that it could not do this directly as the method used to present costs for the purposes of **Appendix A6** is not consistent with their cost account keeping method.

It was suggested that we could verify the company's variable costs to audited statements via SAP. The difficulty in verifying variable costs to audited accounts was also compounded because the data in the **Appendix A6** and "PRODUCTION DATA" (**confidential attachments COSTS-7**) spreadsheets reflected costs of production while the numbers in the cost accounting system and management accounts reflected cost of goods sold. However, we were able to trace the variable costs in **Appendix A6** through the "PRODUCTION DATA" (**confidential attachments COSTS-7**) and "SALES DATA" (**confidential attachments COSTS-8**) spreadsheets to the cost accounting system and then to management accounts for the year ended 31 December 2010. To assist us in this process we obtained reports from SAP containing detailed information on costs for CY 2010 (**confidential attachment COSTS-9**). We were able to match the variable costs to the costs in the management accounts.

We then sought to verify the cost of selected variable costs. We asked the company to explain the constituent parts of the three categories of variables costs, namely, raw materials, direct labour and variable overheads.

We noted that the variances identified related to both fixed and variable expenses. We explained to the company that we were required to verify that the actual costs to make electric cable are both relevant and accurate. With our focus on raw materials, we explained to the company that we were required to verify that the copper costs in Appendix 6 reflected net, actual, yielded copper costs.

In relation to direct labour expenses, we explained that we required the actual cost of direct labour incurred in the production of the like goods. We sought to verify the completeness and accuracy of these costs with reference to labour engaged on the factory floor.

Our focus for verification of variable overhead expenses related to the cost of electricity.

Raw Materials

The company explained that the *Raw Materials* category included the company's standard costs to make each product adjusted for variances to costs. The standard costs were contained in the Material Cost Estimate for each product which is based on its individual bill of materials (**BoMs**) and costing route. We focussed our verification on CNCP07A1002WVAA, however the company explained that apart from the use of sheathing the categories of raw materials remained fairly consistent across all product groups. In summary, the following raw materials are used in the production of electric wire for sale:

- Copper rod;
- Polyvinyl chloride (PVC);
- Colour compound; and
- Packaging (including spools, labels, timber pallets, pallet liner, spool lining and pallet wrap).

Having observed the production process, we were satisfied that the BoMs accurately and completely reflected the cost to produce electric wire for sale. Copies of the

BoM and material cost estimate form **confidential attachments COSTS-10 and COST-11**, respectively. The company confirmed that the current BoM had a commencement date of 1 April 2011 (**confidential attachments COSTS-12**).

We asked the company to explain how its cost accounting system captured and allocated actual costs to the products. The company explained that although it directly captured variances to its metal prices and allocated them to the cost of goods sold, it did not directly capture and allocate the following cost categories:

- Non metal manufacturing and direct cost variances;
- Manufacturing labour variances;
- Actual gains or losses on hedging activities ("Metal Result");
- Inventory costs adjustments; and
- the net result of Fixed Expenses and Direct Expense Overheads incurred and recovered.

A summary of the factory variances were contained in the "P&L Adj" worksheet supporting **Appendix A6**, a copy of which forms **confidential attachment COSTS-8**.

We asked the company to reconcile its non-metal factory variances to audited accounts. The company was able to reconcile the variances to the trading summary for the *Building and Industrial* division in the December 2010 *Monthly Financial Pack* (**confidential attachment COSTS-1**).

In the course of seeking an explanation of how the company accounted for its metal costs, we were advised of its metal pricing and foreign exchange hedging activities. The net outcome of that activity resulted in an item identified as the "*Metal Result*", which was posted to the Trading Summary (profit and loss outcome). A copy of the metal result outcome for June 2011 was provided (**confidential attachment COSTS-13**). We were able to reconcile the *Metal Result* calculation contained in that worksheet to the June 2011 Monthly Financial Pack (**confidential attachment COSTS-2**).

[redacted] The company agreed and revised its calculations contained in **Appendix A6**.

Copper rod

Focusing on product CNCP07A1002WVAA for the month of December 2010, we began by identifying the copper cost in the overall raw material cost calculation. The raw material cost calculation was based on an allocation of standard material costs, adjusted by an allocation of the actual copper costs in the period.

As the standard material costs were recorded by the company in terms of the cost of goods sold, rather than on the basis of production, the company adjusted the standard material cost as a percentage of monthly production volume *over* sales volume.

A summary of the company's standard material costs was contained in the "SALES DATA" worksheet (**confidential attachment COSTS-6**). We asked the company to identify the source of this data. The company generated a December 2010 YTD report from SAP for the product (**confidential attachment COSTS-14**). We were able to reconcile the total standard material value contained in the worksheet ([redacted]) to the SAP report ([redacted]) with a small margin of difference ([redacted]%). We reconciled the two values by factoring in the standard variable labour cost component and direct expenses contained in the "SALES DATA" worksheet to make it agree to the standard variable costs and direct expenses value contained in SAP.

Having agreed the "SALES DATA" worksheet to the company's cost accounting system, we sought to agree the material cost estimate (**confidential attachment COSTS-11**) to the "SALES DATA" worksheet for the month of June 2011 (**confidential attachment COSTS-15**). We applied the unit standard material cost value ([redacted] per 1,000 metres) to the domestic sales volume for December 2010 ([redacted] metres). The amounts reconciled exactly. Therefore, we were satisfied that the standard variable costs applied in the material cost estimate were accurately applied to the SALES DATA worksheet supporting **Appendix A6**.

We compared the quantity of copper rod applied to the production of electric wire contained in the BoM ([redacted] kg) to the quantity in the material cost estimate ([redacted] kg). We asked the company to explain the difference ([redacted]%). The company produced a *Change Material BoM* for the primary copper rod used in the electric cable, which indicated a [redacted]% scrap allowance. A copy of the *Change Material BoM* forms **confidential attachment COSTS-16**.

The company explained that it applied a standard price for copper rod at AUD [redacted] per tonne. It purchased copper rod from a single supplier, [redacted] ([redacted]). [copper rod supplier] The company described the approach it followed to calculate the net, actual, yielded copper costs.

In support of the explanation the company produced its weighted average cost (**WAC**) worksheet for June 2011 which it used to calculate the metal adjustment value for copper in the period (**confidential attachment COSTS-17**) and agreed it with the entry in SAP (**confidential attachment COSTS-18**). The company explained that the metal adjustment value was inclusive of the recovery of value on scrap sold and produced its June 2011 invoice issued by [redacted] [scrap recycler] which agreed with the entry in SAP and agreed with the WAC worksheet allowance for scrap (**confidential attachment COSTS-19**).

We then explained to the company that we need to be satisfied that the WAC calculation was supported by actual purchases of copper rod. In support, the company explained that it purchases copper [redacted]. At the end of month, [redacted] [copper rod supplier] then issues an [redacted]

[redacted]. We obtained for June 2011 (**confidential attachment COSTS-20**).

[redacted]. [pricing calculation] A copy of this worksheet forms (**confidential attachment COSTS-21**).

[redacted] (**confidential attachment COSTS-22**), [price settlement strategy] together with a worksheet demonstrating the calculation of this settlement position (**confidential attachment COSTS-23**) and the corresponding entry in SAP (**confidential attachment COSTS-24**).

As a result of the process outlined above we were satisfied that the copper rod costs in Olex's amended **Appendix A6** reflected actual, net, yielded copper costs incurred in the production of electric cables during the injury analysis period.

Direct labour

We requested documentation to support the labour costs included in Olex's **Appendix A6**. We were able to trace labour costs per metre from **Appendix A6** to the "cost to make" spreadsheet that contained production costs for electric cables. We selected labour associated with each department for further verification. We reconciled the total costs for these reports with the labour costs in the "cost to make" spreadsheet that flowed through to Olex's **Appendix A6**. We were also able to agree the total labour costs to the June 2011 Management Report.

Documents relating to the verification of labour costs form **confidential attachment COSTS-25**.

Electricity

We requested documentation to support the electricity costs included in Olex's **Appendix A6**. We were able to trace electricity costs per metre from **Appendix A6** to the "cost to make" spreadsheet that contained production costs for electric cables. We requested an electricity account for the Lilydale plant for June 2011 to complete our verification. We were able to agree the value contained in the account back to the "cost to make" spreadsheet that flowed through to Olex's **Appendix A6**. We were also able to agree the total electricity costs to the June 2011 Management Report.

Documents relating to the verification of labour costs form **confidential attachment COSTS-26**.

We then sought to trace the total variable costs to audited statements. This was quite a complex exercise because Olex uses a number of calculation worksheets for its cost and financial accounting and because the data in "cost to make" and "standard

material" spreadsheet reflected costs of production while the numbers in the detailed profit and loss statement reflected cost of goods sold. We were, however, able to trace the variable costs in **Appendix A6** through the "SALES DATA" and "PRODUCTION DATA" spreadsheets to management accounts for the year ended 30 June 2011. To assist us in this process, we used and reconciliation worksheet prepared by Olex accounting for factory variances (**confidential attachment COSTS-27**). We were able to match the variable costs to the costs in the management accounts.

Fixed costs

Olex's **Appendix A6** showed monthly and quarterly amounts for fixed costs, which included overheads and depreciation, the total of which constituted approximately ⁎% of the total cost to make electric cables. However, as indicated above, Olex treated its depreciation charge as a direct variable cost. We indicated to the company that we treated the depreciation charge as a fixed cost. Olex recalculated its depreciation charge for **Appendix A6**.

Depreciation

Beginning with its Management Reports for FY 2011, the company identified the depreciation charge for the Lilydale plant. Olex then demonstrated how it allocated that charge across production to the like goods. We requested the company drill down in the financial system for depreciation charges relating to one of the Lilydale assets. The company advised that it was unable to do so. Copies of documents relating to the verification of depreciation expenses form **confidential attachment COSTS-2**.

9.1.2 Selling, distribution and administration expenses

Olex's **Appendix A6** set out its total selling, distribution and administration (SD&A) expenses by product code in the cost categories of selling, distribution, administration, finance and "other, includes freight". To assist in the verification process, Olex also provided a supporting spreadsheet entitled "SALES DATA" which contained the total SD&A expenses incurred over the injury analysis period. The spreadsheet also contained the calculations for SD&A expenses per tonne that were used to calculate SD&A expenses for Olex in **Appendix A6**.

We established during our examination of the documents obtained from Olex that the SD&A expenses included all costs associated with the functions of distribution, freight, supply chain, sales, marketing, administration, financing and management fees, engineering and business technology.

We were able to establish that the SD&A expenses in **Appendix A6** had been calculated by multiplying the sales volume by the expense per metre that was calculated in the "SALES DATA" worksheet. We were also able to trace the numbers from the "SALES DATA" worksheet through the reports obtained from the financial system (and the accompanying reconciliations) to the monthly cost of sales reports into the detailed profit & loss statement. We then requested documents to support the expenses incurred during FY 2011 for each cost category in the "SALES DATA" worksheet. Olex identified each of the expenses in the Management Reports for FY

2011 that reconciled with the numbers in the "SALES DATA" worksheet. Documentation relating to the verification of the above expenses forms **confidential attachment COSTS-2, COSTS 28** and **COSTS 29**.

Conclusion on SD&A expenses

We were satisfied that the SD&A expenses in Olex's **Appendix A6** were a reasonable reflection of the expenses incurred in the sale of electric cable over the injury analysis period.

9.1.3 Cost to make and sell - conclusion

We have verified the costs to make and sell in Olex's **Appendix A6** and are satisfied that they provide a reasonable reflection of the actual costs incurred in the production and sale of electric cables. A copy of Olex' final **Appendix A6** forms **confidential attachment COSTS-30**.

10 ECONOMIC CONDITION OF THE INDUSTRY

10.1 The applicant's injury claims

The applicants claim that the Australian industry has suffered material injury caused by electric cables exported to Australia from China at dumped prices through:

- loss of sales;
- reduced market share;
- price undercutting;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- underutilisation of production capacity;
- reduced return on investment;
- staff retrenchments; and
- an inability to raise capital.

10.2 Commencement of injury

The applicants claim that material injury commenced in the 2005, but the period where the impact is considered most significant is from 2007-08.

10.3 Production

Customs and Border Protection analysis of Olex production volumes of electric cables across the injury analysis period showed that production volumes of cable decreased across the injury analysis period before increasing in the investigation period.

10.4 Revenue effects

Figure 1 shows that Olex revenue from cable sales declined from 2007/08 to 2009/10

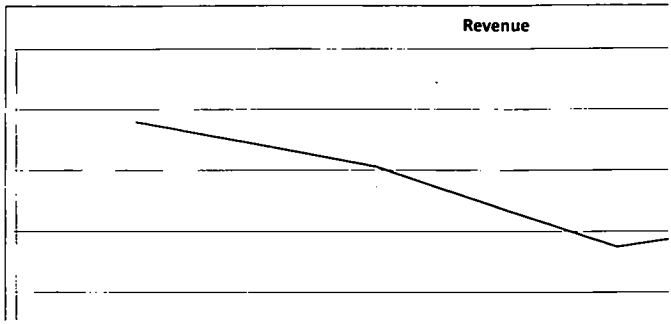


Figure 1: Revenue

10.5 Volume effects

Customs and Border Protection calculated sales volumes of Olex manufactured cables across the injury analysis period. Sales volumes of manufactured cable decreased across the injury analysis period before increasing in the investigation period.

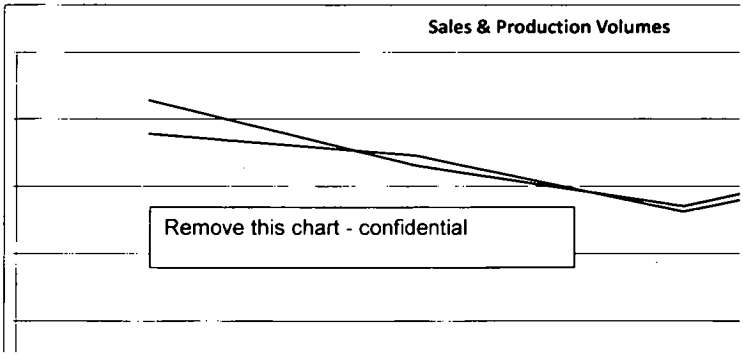


Figure 2: Sales and Production Volumes

10.6 Price effects

10.6.1 Price undercutting

Price undercutting occurs when imported product is sold at a price below that of the Australian industry's product. Olex presented a variety of information and documentation to support its claim of undercutting by imports sold by Electra including emails from sales teams reporting that Electra's prices were lower than Olex.

Further analysis of price undercutting will be undertaken after verification of sales prices during importer verification visits. Copies of documents and evidence demonstrating price undercutting form **confidential attachments INJ-1 to INJ-16**

10.6.2 Price depression

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

Olex claimed injury in the form of price depression. Customs and Border Protection Analysis for ACM Cable 1 showed prices decreased in 2008/2009 and again during 2009/10 before increasing in 2010/11. Overall across the period prices have been depressed.

10.6.3 Price suppression

Price suppression occurs when price increases for the Australian industry's product, which otherwise would have occurred, have been prevented.

Olex claimed that it has suffered price suppression as a result of its inability to hold its margin when costs increased.

Customs and Border Protection analysis showed that Olex's cost to make and sell (CTMS) ACM Cable 1 decreased in 2008/09 then increased every year to 2010/11. The chart below shows the comparison of Olex's weighted average domestic selling price and cost to make and sell for ACM Cable 1 for 2007/09 to 2010/11. The domestic selling prices have not increased at the same rate as the CTMS, demonstrating price suppression.

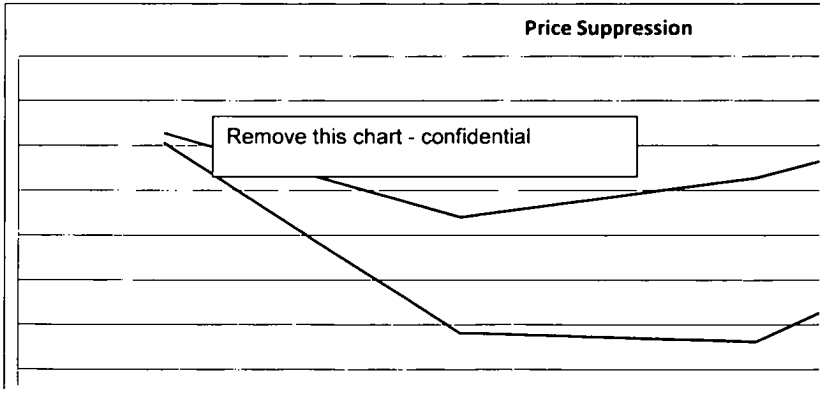


Figure 3: Price Suppression

10.7 Profit and profitability effects

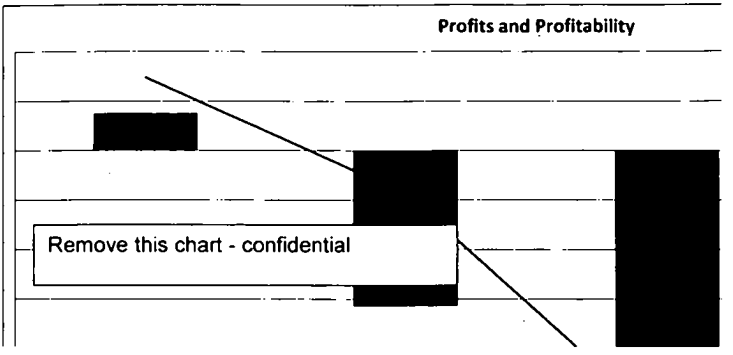


Figure 4: Profit and Profitability

10.8 Summary of major injury indicators

Olex claimed that it suffered injury from 2008/09 which it attributed to dumped imports from China. It has reduced roster hours and retrenched a number of staff as part of a number of measures to reduce costs.

During 2009/2010 Olex stated that it made a concerted effort to maintain volumes by selling goods at a loss and as a result is unable to sell the goods at a profit. Data verified during the visit suggests that Olex has suffered injury in the form of:

- Loss of sales overall from 2007/08 to 2010/11, ,
- Price Depression overall from 2007/08 to 2010/11, ,
- Price Suppression,
- Reduced Profits,
- Reduced Profitability,
- Reduced utilisation of production capacity and;
- A reduction in shifts,

10.9 Other injury factors

Assets

The total value of assets increased from 2007 to 2009 however decreased in 2010.

Capital investment

Capital investment has remained steady across the injury analysis period with the exception of a capital injection in 2009 during an upgrade to the insulation line.

Research and development

There has been no research and development recorded for building wire across the injury analysis period.

Return on investment

Olex reported a small return on investment was during 2007 and 2008 before reporting negative returns for 2009 and 2010.

Capacity

Olex stated that it suffered a decline in capacity utilisation over the injury period. It explained that in 2008 and 2009 the plant had been running at capacity with a full roster unable to meet demand. As a result during this period Olex imported cable from China to meet customer demand. Since 2009 as demand has reduced, capacity utilisation has decreased resulting in a reduction in shifts and no regular importations.

Customs and Border Protection verified Import data which confirmed Olex's reliance on imported product during 2008 and 2009.

Employment

Olex stated that as a result of reduced demand on 4 July 2011 it has for its flat cable production. Olex stated that dumped imports have resulted in reducing staffing levels in its cable manufacturing business.

Productivity

Data on productivity was not supplied or available from Olex for the like goods.

Stocks

The value of stock increased in 2010 despite an increase in sales.

Cash flow measures

Accounts receivable turnover was not provided however inventory turnover fell in 2010.

Wages

Despite a decrease in employee headcount for like goods, the wage bill increased in 2010.

Summary of other injury factors

Other injury factors that indicate Olex's economic performance deterioration include:

- reduced return on investment;
- underutilisation of production capacity;
- decreased employment; and

- increased stocks.

11 CAUSATION

11.1 Introduction

Olex claimed that there was a direct link between its injury and the allegedly dumped imports from China.

Olex stated that it had been injured because its selling prices, and the selling prices of its independent customers, have been significantly undercut by the allegedly dumped electric cable.

Olex stated that the price undercutting had made the allegedly dumped imports so attractive in the Australian market compared with Olex's electric cable that it had lost significant sales volume and market share to imports. During our visit, Olex highlighted this process in correspondence with customers. The exchanges often consisted of requests from customers for lower prices to match a particular trader or reseller's offer, on occasion with a copy of the import offer attached.

Olex stated the correspondence also supported its claim that the allegedly dumped electric cable had also caused suppression of its selling prices. Olex advised it has been prevented from increasing its prices in line with cost increases, particularly increases relating to copper prices, in the past few years.

Olex further claimed that the combined effect of lost sales volume, lost market share and price suppression, which affected its profitability, has resulted in a significant decline in total profit generated from sales of electric cable over the injury analysis period.

Copies of correspondence, sales reports and price lists relating to the above claims form **confidential attachments INJ-1 to INJ-25**.

Olex stated that it had adopted a strategy to try to compete against the allegedly dumped imports and rebuild the company back to 2008 sales and market share levels. Further explanation of this initiative forms **confidential attachment INJ-18**.

11.2 Injury from factors other than dumping

Customs and Border Protection has examined the data provided by the Australian industry to determine if factors other than dumping may have caused injury to the Australian industry.

Global Financial Crisis (GFC)

Our analysis of sales shows that notwithstanding an initial contraction at the outset of the GFC, the overall Australian market size for electric cables grew to pre-GFC levels. Over this time, Olex's market share contracted.

Export performance

Customs and Border Protection's analysis of sales of all domestic production showed the proportion of electric cables sold on export markets by Olex remained almost

constant over the injury analysis period. We considered the proportion of export sales in terms of overall sales and considered it not substantial. A detailed sales report for export sales of electric cables across the investigation period was obtained and forms **confidential attachment EXP-1**.

Capacity

Olex stated that it was aware that some interested parties in the investigation had previously claimed that the Australian industry was unable to produce enough electric cables to supply the Australian market. Together with the two other Australian electric cable producers, Olex submitted information in the application on actual production volumes achieved during the injury period. Such claims allege that Olex is an importer of electric cable exported from China.

The company explained that such imports were in the context of a plant refurbishment, designed to ensure that there was sufficient stock availability across the summer season shut-down. The company produced contemporaneous correspondence in support of this explanation, a copy of which forms **confirdential attachment INJ-19**.

12 UNSUPPRESSED SELLING PRICE

Unsuppressed selling price and non-injurious price issues are examined at an early stage of an investigation and, where possible and appropriate, preliminary examinations are made during the application consideration period for the purpose of assessing injury and causal link and therefore the appearance of reasonable grounds for the publication of a dumping duty notice.

Customs and Border Protection generally derives the non-injurious price by first establishing a price at which the applicant might reasonably sell its product in a market unaffected by dumping. This price is referred to as the unsuppressed selling price.

Customs and Border Protection's preferred approach to establishing unsuppressed selling prices observes the following hierarchy:

- industry selling prices at a time unaffected by dumping;
- constructed industry prices – industry cost to make and sell plus profit; or
- selling prices of un-dumped imports.

Having calculated the unsuppressed selling price, Customs and Border Protection then calculates a non-injurious price by deducting the costs incurred in getting the goods from the export FOB point (or another point if appropriate) to the relevant level of trade in Australia. The deductions normally include overseas freight, insurance, into-store costs and amounts for importer expenses and profit.

13 ATTACHMENTS

TO BE REVISED	