Keppel Prince Engineering (KPE)

Certain Utility Scale Wind Towers

Review No. 615

Exporter Briefing – Penglai Dajin Offshore Heavy Industry Co., Ltd (Dajin)

Public File

17 July 2023

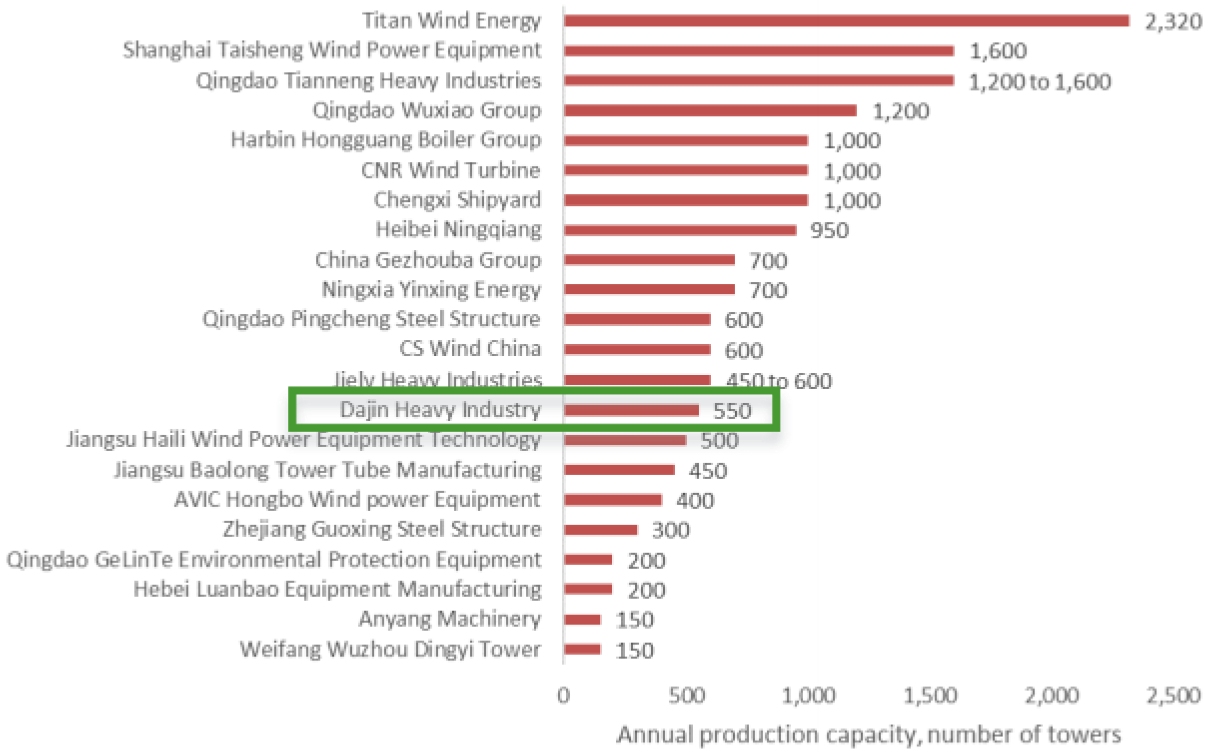
The Chinese Wind Tower Market – Overview

The Chinese wind tower market has experienced significant growth and development over the past decade. China has emerged as the world's largest market for wind power, both in terms of installed capacity and manufacturing capabilities. Key points regarding the Chinese wind tower include:

1. Market Size and Growth: China has been rapidly expanding its wind power capacity to meet its growing energy demands and reduce reliance on fossil fuels. The country has set renewable energy targets and has been consistently adding new wind power installations. As of 2021, China accounted for approx. 40% of the global installed wind capacity.
2. Manufacturing Dominance: Chinese producers have become dominant players in the manufacturing of wind turbines and related components, including wind towers. This dominance is due to a combination of factors such as government support, favorable policies, access to raw materials, and a large labor force. Chinese wind tower manufacturers have been able to scale up production and offer competitive pricing.
3. Export Market: Chinese wind tower manufacturers have expanded their presence in the global market. They are exporting wind towers and other wind power equipment to various countries around the world. Chinese companies' competitive pricing has made them attractive suppliers in international wind power projects.
4. Government Support: The Chinese government has provided significant support to the wind power industry through policies, incentives, and subsidies.
5. Manufacturing Landscape: Prominent Chinese wind tower manufacturers include Titan Wind Energy, CS Wind China, Shanghai Taisheng Wind Power Equipment.

The Chinese Wind Tower Market – Overview (cont.)

In 2019, the U.S. International Trade Commission estimated annual wind tower production capacity (by producer) was as follows:



Source: Non-Confidential Attachment 3 to KPE's CON 621 application.

Dajin – Exporter Overview

General company overview available at https://www.dajininvest.cn/index

Dajin Heavy Industry CO., LTD

Dajin Heavy Industry Co., Ltd, founded in 2000 and publicly listed in 2010, the first one among all the like-companies in China, is the largest private Chinese offshore wind fabricator of monopiles, transition pieces and offshore towers. In addition, Dajin is developing jackets and floating foundations.For us top priority is QHSE that was confirmed to be at outstanding levels by audits of European Developers, EPCs and OEMs. We set clear goals to achieve carbon neutrality. Now we are ready to contribute to European Local Content for foundation scope of offshore wind.

We can produce XXL monopiles with up to 11.5m diameter with 2500T weights. Annual capacity is at the level of 1 million tons of steel. With new ongoing investments into new facilities we are now expanding our capacities and capabilities and by 2025 will achieve 2 million tons of steel per annum with TRIPPLE XL monopiles of 15m diameter with 4000T weights. We are also implementing the XXL offshore towers concept reaching 11.5m diameter, 600T weight per section and 120m lengths per section.

Dajin Port, our self-owned port, has uniquely enhanced our capacity and our capabilities. With a max water depth of 14 Meters and a Gantry Crane crossing over the load out wharf, Dajin Port is becoming significantly crucial in fulfillment of our products delivery, of our commitment to our customers, and of our dreams “thinking bigger by doing better.”

Putting our Clients first, Dajin will continue to lead in where we specialize now and in the future in every step toward a cleaner and greener world.

Dajin – Exporter Overview (cont.)

General company overview available at https://www.dajininvest.cn/index

Manufacturing Sector

Onshore and Offshore Towers, Monopiles, Transition Pieces, Jackets, Floating Platforms etc.

Wind Farms Development

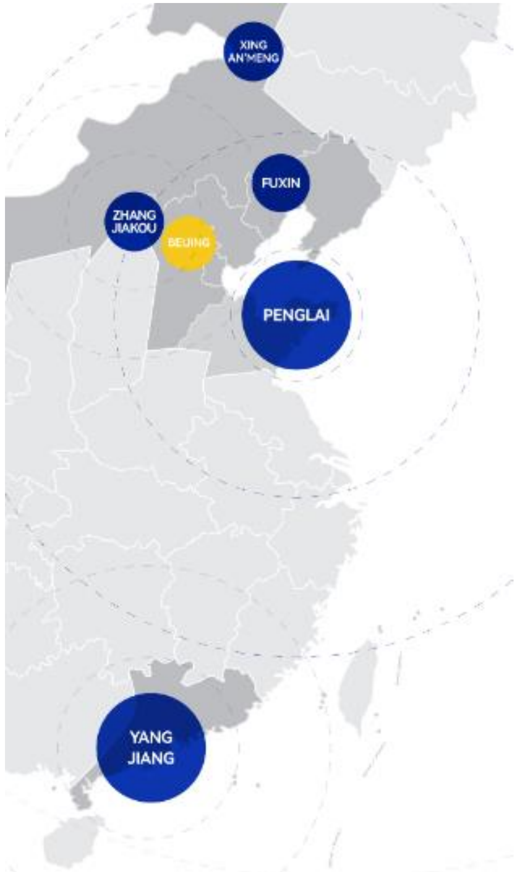
We had our first 50MW onshore windfarm connected to the Grid. By end of 2022, extra 250MW onshore wind farms scheduled to complete commission. And we plan to have 2GW renewable projects in recent three years.

Marshalling Port Operations

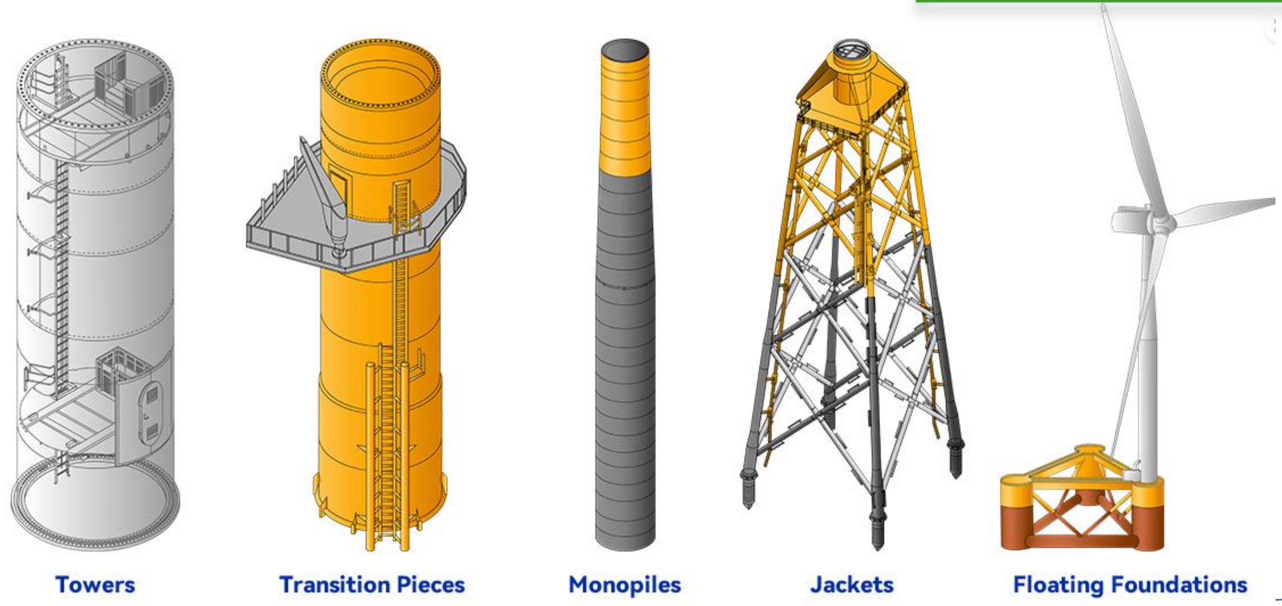
In 2021, We established the Northern China Marshalling Port and Industrial Zone, based on our Penglai Facility existing self-owned port with water depth more than 14m, a giant leap toward scale economy in the renewable industry.

Dajin – Exporter Overview (cont.)

General company overview available at https://www.dajininvest.cn/index



	01 Penglai Dajin Offshore Facility	02 Yangjiang (Phase 1) Offshore Facility	03 Fuxin Dajin Onshore Facility	04 Xing An'meng Dajin Onshore Facility	05 Zhang Jiakou Dajin Onshore Facility
PRODUCTS	Onshore / Offshore Towers, Foundations (MPs, TPs, Jackets etc.)	Onshore / Offshore Towers, Foundations (MPs, TPs, Jackets etc.)	Onshore Towers	Onshore Towers	Onshore Towers
MAX. DIA	11.5 Meters	11.5 Meters*	6 Meters	6 Meters	6 Meters
MAX WEIGHT PER PRODUCT	2,500T	2,500T	600T	600T	600T
MAX. PLATE THICKNESS	130 mm	130 mm	110 mm	100 mm	100 mm
CAPACITY PER ANNUM IN TONS	500,000 T	200,000 T	200,000 T	100,000 T	200,000 T



Dajin – KPE Assessments

[*Commercial-in-confidence KPE assessment of the exporter*]

EQR Assessment: Section A (Company Information)

Dajin states at A-1(5) that the production location for wind towers is the Penglai Economic Development Zone:

5. Please provide the location of your company's production plant manufacturing the goods under consideration.

The location of Penglai Dajin's production plant manufacturing the goods under consideration is Penglai Dajin's domicile, that is No.81 Zhenxing Road, Penglai Economic Development Zone.

However, slide 6 above details that Dajin manufactures onshore wind towers at three sperate facilities not within geographical proximity to the Penglai Economic Zone.

EQR Assessment: Section E (Due Allowance)

Dajin states at E-2 that there is no packaging for domestic or export sales of wind towers:

E-2 Packaging

1. What is the packaging used for your domestic sales of like goods?

There is no packaging for the domestic sales of like goods.

2. What is the packaging used for your export sales of the goods to Australia?

There is no packing for the export sales of the goods to Australia.

3. If there are distinct differences in packaging between your domestic and export sales:
    (a) Provide details of the differences
    (b) Calculate the weighted average packaging cost for each model sold on the domestic market
    (c) Calculate the weighted average packaging cost for each model exported to Australia

There is no distinct differences in packaging between your domestic and export sales.

In contrast, CS Wind's EQR response notes that tarpaulin covers are used to pack finished wind towers on both domestic and export markets (see p. 26), and Chenxi Shipyard notes that packaging for wind towers involves section end wraps (see p. 30).

Wind tower packaging typically consists of a tarpaulin over either end of the tower to prevent weather exposure to the internal tower components. It also includes shipping/transport frames, which would comprise approximately [*XX-XX%*] of the total freight cost. At the end of export transportation, these frames are typically sold or scrapped.

EQR Assessment: Section E (Due Allowance) (cont.)

Dajin incorrectly states as follows at E-4(2) regarding tax liabilities between domestic and export wind tower sales:

2. Are there any differences in tax liability between domestic and export sales? If yes, provide details, for example:
   - What is the rate of value-added tax (VAT) on sales of the goods and like goods?
   - How is VAT accounted for in your records in relation to sales of the goods and like goods?
   - Do you receive a VAT refund in relation to sales of the goods and/or like goods?
   - Do you receive a remission or drawback of import duties on inputs consumed in the productions of the goods or like goods?

Not applicable. There is no differences in tax liability between domestic and export sales.

In contrast, Chenxi Shipyard's EQR response confirms that a full VAT refund is applicable to Chinese exports of wind towers (see p. 31).

During the Australian industry verification, KPE also confirmed that Chinese wind tower exporters receive a VAT refund.

EQR Assessment: Section H (Particular Market Situation)

Special Economic Zones and Other Designated Incentives:

- Various Chinese Manufacturers of Wind Towers operate in special economic zones (**SEZ**) and therefore may benefit from subsidies made available to producers and exporters located in these zones.
- Whilst the Australian wind tower trade measures do not include a countervailing component, consideration of subsidies and their specificity is relevant for particular market situation considerations.
- Wind tower producers located in these SEZ's are likely to receive benefits under a variety of different programs. The ADC should investigate these SEZs and determine whether Chinese exporters have benefited from any program available as a result of these enterprises operating within these particular geographical zones.
- Wind tower producers in these SEZ's may benefit from industrial subsidies aimed to support and encourage the technological development, such as subsidies for small, medium, and micro enterprises. According to the definition provided by the National Bureau of Statistics, "industrial" SMEs are considered small, medium and micro enterprises that have less than 1000 employees and less than RMB 400 million in operating capital per year (refer: https://www.china-briefing.com/news/china-issues-classification-standards-for-smes/)
- Dajin's Fuxin onshore wind tower facility is located in the Liaoning Province.
- The Liaoning province hosts many SEZ's within its borders, including the Jinzhou Binhai, Dalian Changxing Island, Yingkou, Lushun, Dalian, Shenyang Huishan, Tieling, Shenyang, Panjin Liaobin zones.

EQR Assessment: Section H (Particular Market Situation) (cont.)

- The Liaoning province prioritizes the “leap frog” development of renewable energy as part of its interpretation of the national 14th Five-Year Plan. A part of this developmental policy includes the “continuous optimization of the energy structure” and “accelerating the development of the Energy Equipment Manufacturing Industry.”
- In 2020, the installed capacity of wind power already exceeded goals from the 13th Five-Year Plan, reaching 9.81 million kW, 1.5 times the installed capacity in 2015. Consequently, the Liaoning province saw development of the wind power sector increase by 9% annually from 2015 to 2020. The 14th Five-Year Plan anticipates wind power growth from 1.5 million kW in Phase I, 3.3 million kW in Phase II, and 13.6 million kW in Phase III.
  - Refer: *14th Five-Year" energy development plan of Liaoning Province*, Liaoning Province People’s Government, 5 July 2022 (Google Translation), retrieved from http://www.ln.gov.cn/zwgkx/zfwj/szfbgtwj/zfwj2011 153687/202207/t20220714 4615028.html.
- The Liaoning SEZ has promoted its “three loans” as its “business card” for the Yingkou municipality. The “three loans” include:

  a) “First Loan Center”: provides “first” start-up loans to SMEs in the SEZ;

  b) “Green Loan Center": issues “green” loans to enterprises that comply with the “Green Industry Guidance Catalogue” as part of the SEZ’s green financing initiatives; and

  c) “Science and Technology Innovation Loan Center”: provides scientific and technology-related loans to SMEs, high-tech enterprises, “specialized and new” enterprises, young “eagle”, “gazelle” and “unicorn” enterprises in the SEZ

EQR Assessment: Section H (Particular Market Situation) (cont.)

- The “three loans” are supported by the SEZ’s “special fund” of RMB 20 million, a 0.5% loan interest discount, and a 0.5% guarantee fee subsidy for enterprises that qualify for any of these three loans. In addition, enterprises that use export credit insurance financing will receive a 0.7% loan interest discount, as well as a 5% insurance premium subsidy on top of the previous subsidies (with exception for small and micro enterprises that have already received 100% support for their insurance premiums).
- Further, each enterprise in the SEZs may receive a maximum of RMB 1 million per year in these subsidies.
  - Refer: *Implementation opinions on the construction of the "three loans" center in Yingkou Area of China (Liaoning) Pilot Free Trade Zone* (Google Translation), retrieved from http://ftz.yingkou.gov.cn/qyfw/004001/20220328/f9cb0426-cade-4136-a558-78896304d183.html

EQR Assessment: Section H (Particular Market Situation) (cont.)

- On 21 April 2023, the Canada Border Services Agency (**CBSA**) initiated an investigation under the Special Import Measures Act regarding the alleged injurious dumping and subsidising of wind towers from China. The initiation followed a complaint filed by the Canadian wind tower producing industry. All following references and information are references to the application made by the producing industry.
- The applicants allege that ***Section 20*** conditions exist in the Chinese wind tower market – namely that domestic Chinese wind tower prices are substantially determined by the Government of China (**GOC**) and that there is sufficient reason to believe that they are not substantially the same as they would be if they were determined in a competitive market.
- Keppel Prince (**KPE**) submits that a particular market situation exists for Chinese wind towers, and that the recent Section 20 allegations made by the Canadian industry support this position. These are summarised below.

EQR Assessment: Section H (Particular Market Situation) (cont.)

1. *Domestic prices for wind towers are substantially determined by the GOC*

- The GOC controls the price of Wind Towers in China through its influence over economic policies and directive, subsidies, control and influence over steel inputs, and its green energy policies. Specifically, via:
  - GOV involvement in the electricity sector.
  - The 14th Five-Year Plan for National Economic and Social Development and Long Range Objectives for 2035.
  - The 14th Five Year Renewable Energy Plan.
  - The "Made in China 2025" 10-year state industrial policy.
  - State-owned enterprises in the Chinese wind turbine industry.
  - State-owned enterprises in the Wind Tower industry.
  - Government control over the Chinese steel industry, via:
    - China's excess steel capacity swap program;
    - 14th Five-Year Plan for Circular Economy Development;
    - 14th Five-Year Plans for Steel;
    - State-ownership of steel production assets; and
    - Steel subsidies.

EQR Assessment: Section H (Particular Market Situation) (cont.)

2. *Domestic prices for wind towers in China are not what they would be in a market economy*

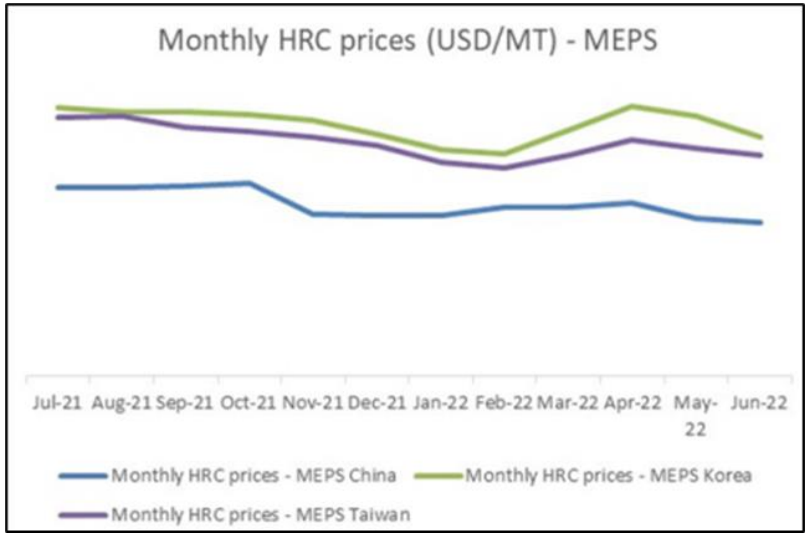
- Benchmarks do exist and are available for the main inputs in wind tower production, being steel plate. Given that the cost of steel is the most significant cost in the production of wind towers, trends in pricing for this inputs is a reasonable proxy for the purpose of comparing wind tower pricing in China to wind tower pricing in other, competitive markets.
- In KPE's continuation application for CON 621 it provided the following chart depicting the movement in Chinese, Korean, Taiwanese, and Japanese plate steel prices from FY2018 (the period covered by CON 487) to FY2022. A composite Korea/Taiwan price was also included:

[*commercial-in-confidence chart: plate steel price comparisons*]

EQR Assessment: Section H (Particular Market Situation) (cont.)

2. *Domestic prices for wind towers in China are not what they would be in a market economy (cont.)*

- The table shows that the GOC's influence and control ensured that Chinese prices lower than all others charted. This alone is compelling evidence of GOC control and influence in the market.
- The Commission's most recent PMS conclusion was in Continuation No. 611 for zinc coated (galvanised) steel from China, where it confirmed the existence of a PMS for the goods in China for the FY2022 inquiry period which then resulted in domestic sales in China being found not suitable for determining a normal value for cooperating exporters under section 269TAC(1).
- In confirming the PMS, the Commission examined benchmark HRC pricing data over the inquiry period for China, Korea, and Taiwan, and presented the following analysis:



EQR Assessment: Section H (Particular Market Situation) (cont.)

2. Domestic prices for wind towers in China are not what they would be in a market economy (cont.)

- Plate steel is a flat steel product closely related to HRC. In Continuation No. 611, the Commission concluded that it was:

  …satisfied that the presence of a particular market situation affects the Chinese market for the goods, primarily through the distortion of HRC prices as the principal raw material cost. Purchase prices of HRC in China are not reflective of market conditions because, based on the available evidence, they are not the result of properly functioning profit and price signals. They are therefore not a reliable indication of the cost of production of downstream products in China.