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The Director - Investigations
Anti-Dumping Commission
GPO Box 2013
Canberra ACT 2601

REVIEW OF MEASURES - WIND TOWERS EXPORTED FROM CHINA

Dear Director,

Penglai Dajin Offshore Heavy Industry Co., Ltd. ("Dajin") makes this submission to the review of measures into wind towers exported from China, to highlight the physical, production, commercial and functional differences between onshore and offshore wind towers. These clear differences support the view that offshore wind towers are not suitable for proper comparison with onshore wind towers.

Prior to outlining the differences between onshore and offshore wind towers, Dajin wishes to emphasise that it does not consider that offshore wind towers fall outside the scope of the definition of the subject goods. Instead, it highlights these differences to demonstrate that in establishing a normal value for the onshore wind towers that Dajin exported to Australia during the review period, the most like and comparable domestic sales for comparison are onshore wind towers.

That is, in calculating a market price for the onshore towers exported to Australia, domestic onshore towers are directly comparable and warrant relatively minor adjustments to ensure proper comparison. Whereas, as is evidenced by the supporting documentation to this submission, there are significantly greater cost and price differences incurred in the production and sale of offshore wind towers, which would require substantial adjustments and may not ensure proper comparison.

This view is supported by the Commission's previous findings in Review 602:

> *The commission compared the weighted average selling price, CTMS and profit and found that there were material differences between onshore and offshore values for all 3 factors. The commission considers that this indicates that the application of an amount of profit based on all like goods sales would affect the comparison between normal value and export price. Accordingly, the commission has used an amount of profit for domestic sales of onshore wind towers which are profitable and recoverable.*

Dajin submits that circumstances remain unchanged with material difference in costs, prices and profits between onshore and offshore wind towers, stemming from production, specification and price-setting characteristics.

Like goods assessment

In its questionnaire response, Dajin applied the Commission's like goods framework in detailing some of the key differences between onshore and offshore wind towers. A summary of those differences is highlighted below:

a) Physically, onshore towers are typically manufactured in a diameter range from 4.5m to 6.5m, whereas offshore towers range between 6m to 9m. The larger diameter of offshore towers is to address the harsher marine conditions and stronger wind speeds facing offshore wind farms.
b) there is also a weight difference with onshore towers averaging 250-450 metric ton per tower whereas offshore towers average between 800-1,000 metric ton per tower. Again, this is to take account of the tougher environmental conditions facing offshore wind farms.
c) special anti-corrosion standards are applied to offshore wind towers, due to their high corrosion environments.
d) whilst both onshore and offshore wind towers have a turbine and blades attached them, the offshore towers include an additional transition piece and monopile foundation, which are not components required for the onshore tower;
e) from a production point of view, substantial differences also exist between onshore and offshore towers. First, the bigger diameter and heavier weight of the offshore towers requires significant extra tooling and fixtures during the manufacturing process, such as the supporting steel/wires to prevent deformity of the larger sections, whilst onshore towers do not.
f) second, the larger and heavier offshore tower sections cannot be manufactured on facilities used for production of onshore towers. As evidenced during the Commission's factory tour, Dajin required substantial upgrades to its onshore factory including tracks and hoists, to accommodate the extra diameter and weights of the offshore sections;
g) third, the larger and heavier sections of the offshore towers require non-standard flanges;
h) fourth, due to the high corrosion environment for offshore towers, additional zinc metallization is required;
i) due to these highlighted production differences, customers will typically undertake a factory audit to ensure proper compliance and operational requirements for the manufacture of offshore towers, whereas no audit is required for onshore tower production;
j) onshore and offshore towers are not commercially and functionally alike as they cannot be substituted for each given the location and environmental considerations. Essentially, onshore towers are installed on land, while the offshore towers are installed in the seas and oceans. Only offshore towers can satisfy the requirement to operate in a marine and high corrosion environment;
k) onshore and offshore towers do not compete in the same market as the wind farm will specify whether the project is to be situated on land or sea, and specify whether

the towers are to be manufactured to meet onshore or offshore requirements. In ordering wind towers, customers will provide technical specifications and drawings to confirm the manner in which the wind tower is to be used, whether on land or sea.

Other consideration

It is noted that an exemption exists for goods meeting the following description:

SECTIONS, WIND GENERATOR TOWER, having ALL of the following:
(a) plate steel having a thickness of NOT less than 33 mm and NOT greater than 60 mm;
(b) section length NOT less than 14,100 mm and NOT greater than 16,250 mm;
(c) section weight NOT less than 60 metric tonnes and NOT greater than 105 metric tonnes;
(d) diameter NOT less than 4,299 mm and NOT greater than 4,650 mm

The exempted goods description essentially covers sections relevant to offshore wind towers. The exemption was made following granting of a Tariff Concession Order ("TCO") (TC 176 1480) by Australian Border Force ("ABF"), which was made upon application by Keppel Prince Engineering Pty Ltd ("KPE").

It is noted that a TCO may only be granted if the applicant demonstrates that Australian manufacturers of **substitutable goods** do not exist. Given that KPE is a manufacturer of onshore wind towers only, and applied for offshore wind tower sections to be exempt, it must be the case that KPE satisfied ABF that domestic production of its own onshore wind tower sections, were not substitutable for imports of offshore wind tower sections. In that case, KPE would also agree that onshore and offshore towers are not commercially or functionally alike, cannot be substituted for each other, and cannot be properly compared to each other.

Actual cost differences

During its onsite verification, the Commission officers requested Dajin to outline any cost differences between onshore and offshore towers which might support its view that offshore towers were not suitable for proper comparison with Dajin's onshore tower exports. Dajin has reviewed production costs for self-produced onshore and offshore towers to identify the significant cost elements and quantify the cost differences for those items used in the production of onshore and offshore towers. A summary along with supporting screenshots and exhibits are included.

A. Flanges:

The purchase cost of flanges used for offshore wind towers is substantially higher (approx. [redacted]% higher) than flanges for onshore wind towers, when comparing two similar projects, [redacted] for offshore wind tower and [redacted] for onshore wind tower to illustrate the differences. Please see **Exhibit 1** for calculation.

[CONFIDENTIAL TABLE REMOVED]

The total cost per ton for flanges shows an even greater cost difference, with the average flange cost for self-produced offshore wind towers being approximately [redacted]% higher than the onshore wind towers. Please see the calculation worksheet **Exhibit 2** below.

[CONFIDENTIAL TABLE REMOVED]

B. Internal components:

The internal material components for self-produced offshore wind tower is approximately [redacted]% higher than the onshore wind towers. Please see the calculation worksheet **Exhibit 2** below.

[CONFIDENTIAL TABLE REMOVED]

C. Paint and welding material:

The purchase price for paint and welding material for offshore wind towers are also higher than the onshore wind towers. This is reflected as direct labor-outsourcing service in the cost calculation process. Whilst the unit price RMB/Ton for these two materials are similar, importantly the actual total cost associated with painting and welding is significantly higher for offshore towers, due to the offshore tower sections have a greater surface area which requires more painting, and being heavier which requires more welding than the onshore towers. Therefore, on a tower basis, offshore wind towers' total purchase cost for paint and welding material is higher than the onshore wind towers.

D. Zinc spray process:

The zinc spray area for offshore wind tower is larger than the onshore towers, representing approximately a [redacted]% higher cost for zinc spraying. Please see below for the comparison, which is also shown in **Exhibit 3**.

[CONFIDENTIAL TABLE REMOVED]

Each of the higher costs associated with the production of offshore towers translates to higher prices.

Profit differences

As explained to the Commission during its verification visit, the market dynamics for offshore wind towers differs greatly from onshore towers, which translates to different prices and margins achieved on the products. First, in terms of supply and capacity, there are vastly more manufacturers of onshore towers in China, compared to offshore towers. This is in large part due to the inland location of existing onshore tower producers, as the larger offshore tower sections cannot be transported by truck, and instead requires transportation by vessel to its final destination at sea.

Second, offshore wind farms are not as prevalent as onshore wind farms at present, and domestic renewable energy production continues to focus mainly on onshore wind farms. Third, a substantial capital and technical investment is required to support the manufacture of offshore wind towers, as evidenced by Dajin's own facility upgrades.

These factors have contributed to the onshore wind tower market being significantly more competitive than the offshore wind tower market. The greater degree of competition in the onshore wind tower market has contributed to [redacted] **[profitability]**, whereas the lesser competition in the offshore tower market has allowed for [redacted] **[profitability]**.

Conclusion

Dajin urges the Commission to have regard to the information in this submission, and continue to determine that for the purposes of establishing a fair value for Dajin's exported onshore wind towers, only domestic sales of onshore wind towers ought to be relied upon.

John Bracic