PUBLIC RECORD

Australian Government
Department of Industry, Innovation and Science

Anti-Dumping Commission

CONTINUATION INQUIRY 504

INQUIRY INTO THE CONTINUATION OF ANTI-DUMPING MEASURES APPLYING TO POWER TRANSFORMERS

EXPORTED FROM THE REPUBLIC OF INDONESIA, TWAIAN AND THE KINGDOM OF THAILAND

VISIT REPORT - AUSTRALIAN INDUSTRY

Wilson Transformer Company 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 ANTI-DUMPING COMMISSION

August 2019

CONTENTS

1 BACKGROUND

On 23 November 2018 the Commissioner of the Anti-Dumping Commission (the Commissioner) published Anti-Dumping Notice (ADN) 2018/174 on the website of the Anti-Dumping Commission (the Commission). That notice, in accordance with subsection 269ZHB(1) of the *Customs Act 1901* (the Act),[1] invited certain persons to apply to the Commissioner for a continuation of anti-dumping measures applying to power transformers (the goods) exported to Australia from the Republic of Indonesia (Indonesia), Taiwan and the Kingdom of Thailand (Thailand).

On 22 January 2019, Wilson Transformer Company Pty Ltd (WTC), an Australian producer of the goods , lodged an application for the continuation of the measures, which was within the applicable legislative timeframes.[2]

Following consideration of the application, a continuation inquiry was initiated and a public notice[3] was published on 11 February 2019 in respect of the goods exported to Australia from Indonesia, Taiwan and Thailand.

The inquiry period is 1 January 2016 to 31 December 2018 (inquiry period).

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[1] References to any section or subsection in this report relate to provisions of the Act, unless specifically stated otherwise.

[2] In accordance with subsection 269ZHB(1)(b).

[3] ADN No. 2019/20.

2 THE GOODS

2.1 The goods

The goods the subject of the application referred to in this report as 'power transformers' are:

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

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

2.2 Tariff classification

Power transformers are generally classified to the following tariff subheadings and statistical codes in Schedule 3 to the *Customs Tariff Act 1995*:

- 8504.22.00: 40
- 8504.23.00: 26 and 41

Through verification activities the Commission noted that some importations were classified to incorrect tariff subheadings. The Commission identified instances where the goods had been classified to the following tariff subheadings:

- 8504.21.00 (liquid dielectric transformers having a power handling capacity not exceeding 650 kVA);
- 8504.22.00 (liquid dielectric transformers having a power handling capacity exceeding 650 kVA but not exceeding 10,000 kVA)
- 8504.23.00 (liquid dielectric transformers having a power handling capacity exceeding 10,000 kVA);
- 8504.31.00 (other transformers having a power handling capacity not exceeding 1 kVA);
- 8504.33.00 (other transformers having a power handling capacity exceeding 16 kVA but not exceeding 500 kVA); and
- 8504.34.00 (other transformers having a power handling capacity exceeding 500 kVA).

The Commission notes that the tariff subheadings are provided for administrative convenience and customs purposes. Instead it is the written description in Section 2.1 that defines the goods the subject of the investigation.

3 THE AUSTRALIAN INDUSTRY

3.1 Manufacturing in Australia

The Australian industry producing power transformers is comprised of WTC, Ampcontrol Pty Ltd (Ampcontrol), and Tyree Transformer Co Pty Ltd (Tyree).

WTC is the largest producer (in terms of volume produced) of power transformers in Australia.

WTC stated in its application that power transformers are manufactured from imported and domestically sourced raw materials. Imported raw materials that are not available in Australia include:

- core steel - high quality grain orientated electrical steel;
- conductor - copper wire manufactured to exacting specifications and covered by either paper or enamel;
- insulation – highly specialised paper based material;
- bushings;
- on-load tap changes;
- transformer oil; and
- sundry other components.

WTC stated that the Australian design and manufacturing process include the following:

- electrical design;
- mechanical design;
- winding;
- core cut and build;
- assembly;
- drying;
- tank manufacture;
- tanking;
- final assembly; and
- testing.

The verification team conducted a tour of WTC's Glen Waverley operations and is satisfied that there is at least one substantial process of manufacture performed in Australia and, therefore, that the goods may be taken to have been produced in Australia.

3.2 Like goods

Like goods are defined under Section 269T(1) of the Act as:

> *goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration.*

In the application WTC claimed that the imported goods possess similar characteristics to the locally produced goods.

The following summarises the verification team's assessment of whether the locally produced goods are identical to, or closely resemble, the goods the subject of the application and are therefore like goods.

3.2.1 Physical likeness

WTC stated that the physical characteristics of imported and locally produced power transformers are similar. They are designed and manufactured to equal the performance and quality levels of the goods the subject to the application.

The verification team is satisfied that locally produced and imported power transformers are physically alike. The imported and locally produced power transformers are assembled from the same or similar core components – bushing, windings, conservator, tank and steel core. While power transformers generally can share common product characteristics, the wide array of potential product elements and performance attributes means that each power transformer is unique for a particular customer, and therefore the product engineered for that customer will be physically alike whether it be produced locally or imported.

3.2.2 Commercial likeness

WTC stated that the power transformers it produces competes directly with imported power transformers in the Australian market.

The verification team is satisfied that locally produced and imported power transformers are commercially alike. Locally produced and imported power transformers compete directly within the Australian market. When a customer plans to purchase a new or a replacement transformer, it issues a request for quotation, typically open to both foreign and domestic producers. Such a request will include the specifications of the unit. Manufacturers of power transformers will then bid on the project and confirm their ability to meet the specifications within the required time line. The Commission is satisfied that locally produced and imported power transformers compete directly within the Australian market through a bid and contract award process open to both domestic and foreign manufacturers.

3.2.3 Functional likeness

WTC stated that both locally produced and imported power transformers have comparable or identical end-uses.

The verification team is satisfied that imported power transformers and those produced locally are functionally alike. Power transformers are complex, technical, engineered-to-order capital products. The successful tenderer must demonstrate the capacity to meet the end use requirements of the purchaser, to which end the imported and locally produced power transformer must be functionally alike.

3.2.4 Production likeness

WTC stated that locally produced and imported power transformers are manufactured in a similar manner using similar production processes.

The verification team is satisfied based on information contained within the application and that gathered during Investigation No. 219 that imported and locally produced power transformers are alike in regards their manufacture. While power transformers are complex, engineered-to-order products, the underlying technology necessitates a consistency of material inputs and manufacturing processes common to both locally produced and imported products.

3.3 Conclusion

The verification visit team are satisfied that:

- power transformers manufactured by WTC are like goods to the goods under consideration[4];
- at least one substantial process of manufacture of power transformers is carried out by WTC in Australia, and therefore, like goods were wholly or partly manufactured in Australia[5]; and
- there is an Australian industry in respect of those like goods, consisting primarily of WTC.[6]

[4] Section 269T(1)
[5] Section 269T(2)
[6] Section 269T(4)

4 AUSTRALIAN MARKET

4.1 Background

The Australian market is supplied by WTC, Ampcontrol, Tyree and imports from a range of countries including countries subject to measures and countries not subject to measures.

4.2 Market structure

The electricity network involves the generation, transmission, distribution and sale of electricity. Power transformers are required at various points in this network.

4.2.1 Market segments

The applicant outlined the various segments in the power transformers market.

4.2.1.1 Power generators

Power is generated by numerous sources, including power stations, hydro-electric schemes, wind farms and solar farms. Power is typically generated at 5 to 30 kV, but transmitted at very high voltages (at reduced current) to reduce costs and losses. Power transformers are used to increase the voltage and proportionately reduce the amperage. These power transformers are known as step-up transformers and can have very large power ratings, often 100 to 600 MVA.

4.2.1.2 The power transmission network

Once generated, power must be transmitted to the location where demand exists. At each point where power is transferred between electrical systems the electricity passes through a power transformer.

The major power transmission companies in Australia include Transgrid, AusNet, Powerlink, ElectraNet, TasNetworks and Western Power.

4.2.1.3 The power distribution network

Transmission of electricity usually occurs at 66 to 500 kV, but distribution is made at below 66 kV. Power transformers that take high transmission voltages and convert them to lower voltages suitable for distribution are known as step-down transformers. There are numerous power transformers in a distribution network. Distribution transformers are the last point of connection to a residential or commercial consumer in the distribution network.

The major power distribution companies in Australia include Ausgrid, Endeavour Energy, Essential Energy, Energy Queensland, SA Power Networks, CitiPower and Powercor.

AusNet, TasNetworks and Western Power are distributors as well as transmission companies.

4.2.1.4 Electricity retailers

Retailers buy electricity from distributors and sell it to customers. In some cases the retailer is part of a distribution company. Power transformers are not used in the retail network, although some retailers own generating facilities.

4.2.1.5 Other end-users: mining, oil and gas, rail, industry, renewable developers

Large end users such as heavy industry, resource projects and renewable developers often require power transformers.

4.3 Marketing and distribution

Power transformers are custom designed equipment engineered to suit the requirements of each application, and manufactured to the specifications of the individual utilities, generating facilities and industrial users that purchase the product. Power transformers involve significant capital expenditure and long lead times.

4.3.1 Tender process

The purchase of power transformers is generally through a competitive tender process. When a customer plans a new or replacement transformer, it issues a request for quotation, detailing the specifications of the unit. Manufacturers, both domestic and international, will then bid on the project and confirm their ability to meet the specifications and required time line for delivery and installation.

Depending on the market segment there may be an informal bid process prior to formal bids. This is generally in the renewables sector where the potential purchaser of the power transformers is initially bidding for an Engineering, Procurement and Construction (EPC) contract. The successful EPC contractor will then commence the formal RFQ process.

Development of a formal bid typically takes three to six weeks and involves a significant degree of engineering input. The period from the request for quotation to the award of the contract may be three months or more. Once a unit is ordered, completion of the production and test process typically takes six to eight months. It is not unusual for more than a year to elapse from request for quotation to the delivery of the unit.

4.4 Demand

Demand for power transformers arises from the market segments outlined in section 4.2.1.

WTC submitted that factors contributing to demand variability include:

- economic growth of the country generally, but more specifically of different states;
- regulation: transmission and distribution utilities are natural monopolies and are regulated by the Australian Energy Regulator (AER). The AER's five-yearly regulation reviews have an impact on the investment decisions of the utilities;
- resource cycles, and related mining and gas export projects; and

- national energy policy and associated legislation particularly related to renewable energy. Of particular significance is the Renewable Energy Target (RET), a federal government policy which encourages investment in renewable power stations to achieve 33 000 gigawatt hours (GWh) of additional renewable electricity generation by 2020. WTC claims that due to the deadlines associated with the financial incentives of the RET, there is a peak of demand for power transformers commencing in approximately 2017 and ending in 2020.

4.5 Market size

WTC estimated the size of the Australian market during the inquiry period in terms of sales value using its own production and sales data, estimated sales of other Australian producers and import statistics sourced from the Australian Bureau of Statistics (ABS). WTC made some adjustments, based on its market knowledge, to account for instances where it believed that importations had been incorrectly classified.

In terms of assessing the size of the market, power transformers can be aggregated in terms of value ($AUD), units, and total capacity (expressed in MVA). A power transformer may be 10 MVA and weigh 20 to 25 tonnes or over 500 MVA and weigh over 200 tonnes. Because of the diversity of size and capacity of power transformers, the Commission considers that capacity would be the most appropriate measure of the size of the Australian market. Import statistics however only identify the number of units and sales value. In the absence of volume in number of units during the original investigation, the verification team analysed the Australian market by value ($AUD) prior to and following the imposition of measures.

For the purposes of estimating the size of the Australian market for power transformers the verification team has analysed:

- WTC's verified sales data;
- sales data provided during the original investigation;
- production and sales information provided by Ampcontrol;
- WTC's estimate of the value of sales by Tyree, noting that the Commission contacted Tyree to obtain sales and production data, however did not receive a response from the company;
- importation and sales information provided within questionnaire responses received from four importers;
- production, sales and exportation information provided within questionnaire responses received from eight exporters;
- purchasing information provided within questionnaire responses received from ten end users; and
- import data obtained from the ABF import database under the tariff classifications to which the goods are typically classified, in addition to other tariff classifications identified during the inquiry as potentially including the goods. The data obtained was cleansed by reference to the description of the goods provided in declarations and by value. Line items with a final line customs value of under $150,000 per unit were excluded.

The estimated size of the Australian market in terms of the value of power transformers sold is illustrated in the figure below. The blue vertical line denotes the imposition of measures. Information pertaining to the original investigation was provided in financial years, while the data relating to the inquiry period for this continuation inquiry is in calendar years. As a consequence there is a double counting of some data in the 2013-14 and 2014 bars.

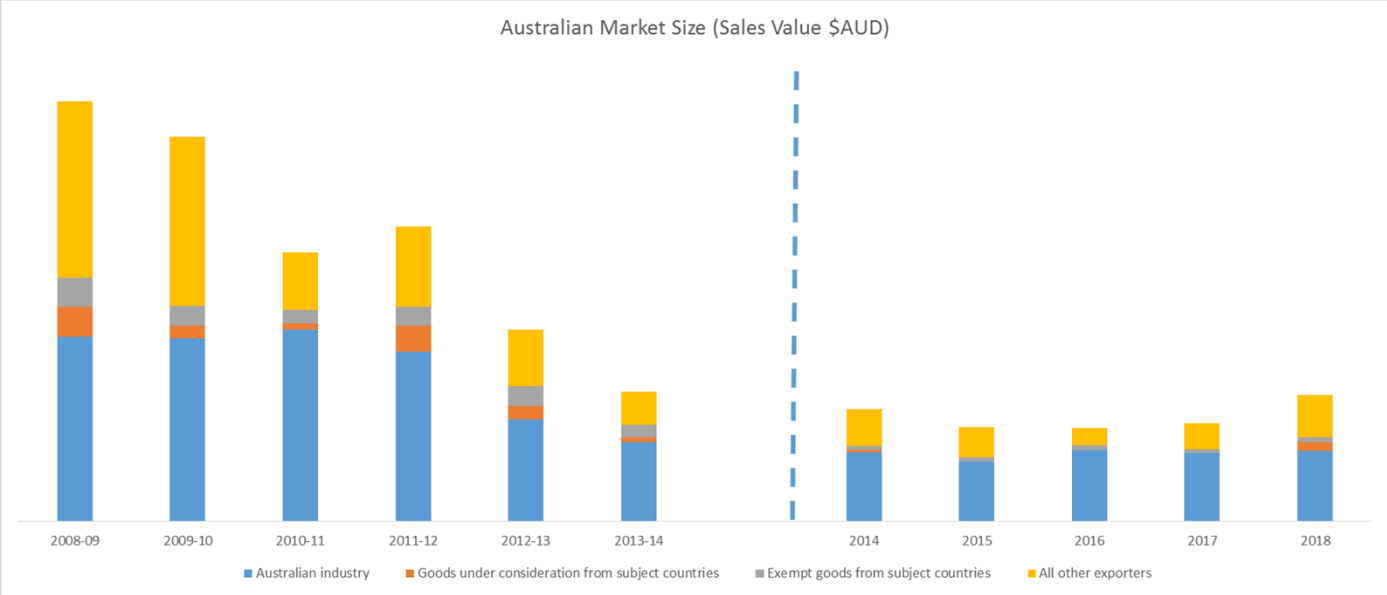

Figure 1 – The Australian market for power transformers (by sales value)

The estimated size of the Australian market during the injury analysis period in terms of the value of power transformers sold is illustrated in the figure below.

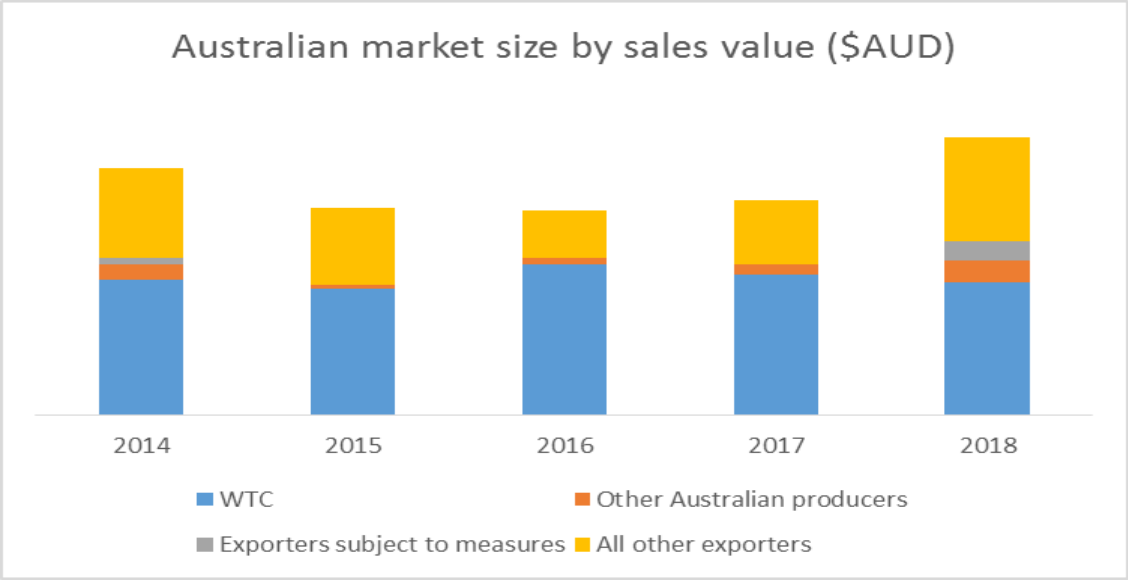

Figure 2 – The Australian market for power transformers in the injury period (by sales value)

The estimated size of the Australian market during the injury analysis period in terms of the number of power transformers sold is illustrated in the figure below.

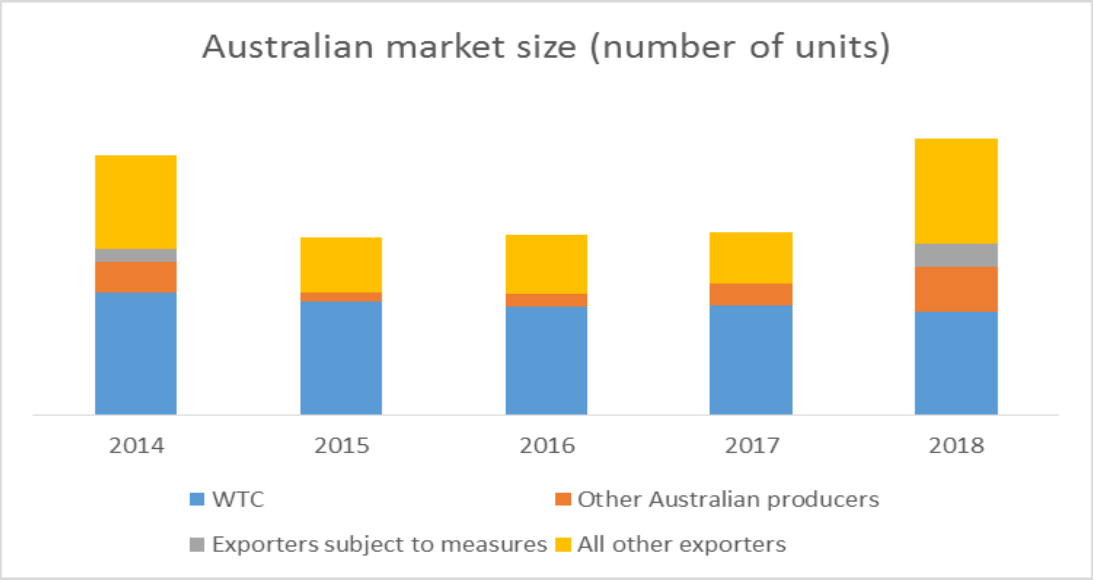

Figure 3 – The Australian market for power transformers in the injury period (by number of units sold)

The verification team notes that there were no exports from exporters the subject of this inquiry after the imposition of measures in 2014 until 2018 when exports from subject exporters have re-entered the Australian market.

The Commission's evaluation of the size of the Australian market is at **Confidential Attachment 1**.

5 VERIFICATION OF SALES

5.1 Verification of sales data to audited financial statements

The verification team verified the completeness and relevance of WTC's sales listing by reconciling it to audited financial statements in accordance with ADN. No 2016/30.

Details of this verification process are contained in the verification work program at **Confidential Appendix 1**.

The verification team identified an issue with the verification of the sales listing to management reports and audited financial statements. This issue is described below and was resolved during the verification.

5.1.1 Items in sales listing that were not like goods sold in Australia

The verification team identified that the sales listing included sales which did not fit within the goods description and so were not 'like goods'. Additionally, the verification team identified sales in the sales listing which were export sales of like goods, not domestic sales.

The verification team removed sales which were not sales of like goods within Australia.

5.2 Verification of sales data to source documents

The verification team verified the accuracy of WTC's sales listing by reconciling it to source documents in accordance with ADN. No 2016/30.

Details of this verification process are contained in the verification work program at **Confidential Appendix 1**.

The verification team did not find any issues with the verification of the sales listing to source documents.

5.3 Related party customers

The verification team did not find any evidence to indicate that WTC had sold power transformers to related parties during the inquiry period.

5.4 Imports by applicant

The verification team did not find any evidence to indicate that WTC had imported any power transformers during the inquiry period.

5.5 Export sales

WTC detailed in its application that it had exported power transformers to several countries during the inquiry period. The export volumes comprised a relatively small proportion of the total volume of power transformers manufactured and sold by WTC during the inquiry period.

As detailed in 5.1.1 above, WTC initially included these export sales in its Australian sales listing. The verification team notes that WTC was able to segregate its export sales of power transformers in its revised confidential data appendices; therefore, the analysis in section 7 of this report does not reflect WTC's export sales volumes.

5.6 Sales – conclusion

The verification team considers that WTC's sales as presented in the revised Australian sales listing is a complete, relevant and accurate reflection of the sales of power transformers during the period from 1 January 2016 to 31 December 2018.

Accordingly, the verification team considers WTC's sales data is suitable for analysing the economic performance of its power transformers operations from 1 January 2014.

WTC's sales data is contained at **Confidential Attachment 2**.

6 VERIFICATION OF COST TO MAKE AND SELL

6.1 Verification of costs to audited financial statements

The verification team verified the completeness and relevance of WTC's cost to make and sell (CTMS) data by reconciling it to audited financial statements in accordance with ADN. No 2016/30.

Details of this verification process are contained in the verification work program at **Confidential Appendix 1**.

The verification team identified the following issues with the verification of the CTMS data to audited financial statements. Both matters were resolved during verification.

6.1.1 Exception 1

The verification team found that the management accounts supplied for the financial years of 2014 to 2017 inclusive were inconsistent. WTC identified that these management accounts were draft accounts for the years that had not been adjusted for period 13 adjustments. WTC subsequently provided correct end of year accounts for the relevant years.

6.1.2 Exception 2

Due to the bespoke nature of the goods, WTC did not provide CTMS for the goods in the format requested by the Commission. The verification team therefore requested sales and CTMS data that could be filtered for domestic and export sales for the purpose of price suppression and profit and profitability analysis. WTC provided this data which could be cross referenced against the verified financial data.

6.2 Verification of costs to source documents

The verification team verified the accuracy of WTC's CTMS data by reconciling it to source documents in accordance with ADN. No 2016/30.

Details of this verification process are contained in the verification work program at **Confidential Appendix 1**.

The verification team did not find any issues with the verification of the CTMS data to source documents.

6.3 Costs to make and sell – conclusion

The verification team considers that WTC's CTMS data is a complete, relevant and accurate reflection of the actual costs to manufacture and sell power transformers during the period from 1 January 2016 to 31 December 2018.

Accordingly, the verification team considers WTC's CTMS data is suitable for analysing the economic performance of its power transformers operations from 1 January 2014 onwards.

WTC's CTMS data is contained at **Confidential Attachment 2.**

7 ECONOMIC CONDITION

7.1 Applicant's injury claims

In its application, WTC claims, among other things, that:

- following the imposition of measures in 2014, Indonesia vacated the Australian market, imports from Taiwan declined, and imports from Thailand that are not subject to measures have maintained a steady share of the Australian market;
- stakeholders from Indonesia, Thailand and Vietnam took legal and other actions in response to the original investigation, indicating a desire to continue exporting into the Australian market;
- the power transformer industry is a global one dominated by large multinational organisations with distribution links to the Australian market. The Australian market is seen as an attractive market for multinational companies with Asian production capability due to its geographic proximity;
- there is overcapacity in the global power transformer industry due to production capacity increasing at a time when significant markets are inaccessible due to protective measures, or experiencing reduced demand; and
- based on these considerations there is every reason to believe that the level of competition and imports of dumped goods will increase if measures are discontinued which will adversely impact the Australian industry.

WTC indicated that continued dumping would cause it to experience material injury in the forms of:

- loss of sales volume;
- reduced market share;
- price depression;
- price suppression;
- loss of profits;
- reduced profitability;
- reduced cash flow;
- reduced capacity utilisation;
- reduced return on investment;
- reduced productivity.
- reduced revenue;
- reduced employment;
- reduced wages;
- reduced assets;
- reduced R&D expenditure; and
- reduced capital investment.

7.2 Commencement of measures

The anti-dumping measures were initially imposed by public notice on 10 December 2014 by the then Parliamentary Secretary to the Minister for Industry.[7] This followed his consideration of the Commissioner's recommendation in *Anti-Dumping Commission Report No. 219* (REP 219) as a result of Investigation No. 219.

Further details on the goods and existing measures is available on the Dumping Commodity Register on the Commission's website.

7.3 Approach to injury analysis

Power transformers are complex, engineered-to-order capital products with an operating life ranging from 30 to 50 years. The production and sales data for power transformers reflect high fixed costs and high unit prices, and hence a reduction in the capacity utilisation of a producer of such capital goods may affect the company's longer term economic and financial performance. WTC's performance in tenders will affect its production volumes, sales volumes, capacity utilisation and several other metrics as discussed below.

Due to the complex nature of the goods the Commission has, for the purposes of this report, assessed injury and causation by examining:

- volumes by unit and value during the inquiry period in conjunction with ABF data;
- outcome of tenders for which WTC submitted a bid and the result of these tenders;
- projects for which WTC did not bid; and
- the broader context of the economic condition of WTC.

In order to understand the extent of WTC's participation in the Australian market during the inquiry period, the verification team requested a full listing of all tenders that WTC participated in during the inquiry period. This list included WTC's bid prices (preliminary and subsequent bids), details relating to the transformers (MVA and kV) and the outcome of these tenders.

The verification team also requested and received more detailed correspondence for an extensive sample of tenders (won and lost) that included information relating to the specifications of the transformers, initial and subsequent bids, internal calculations of bid prices, any available market intelligence or competitor analysis and feedback (where available) from the customer to WTC following the tender.

Where the Commission had information from other sources about tenders during the inquiry period that WTC appeared not to have bid for, the verification team sought information from WTC about its awareness of those projects and any reasons a bid may not have been submitted.

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[7] Refer to ADN No. 2014/132.

7.4 Volume effects

The verification team noted that there is a time lag between the successful winning of a tender and the production and sale of the transformer. Due to this the verification team analysed both the injury to WTC in the form of lost tenders as well as in reduced sales volume and market share.

7.4.1 Tenders

In order to assess injury in the form of reduced volumes as a result of lost tenders, the verification team requested a complete listing of all tenders for which the applicant submitted a bid during the inquiry period. The verification team analysed these by project and by the number of transformers in total (some projects require multiple power transformers).

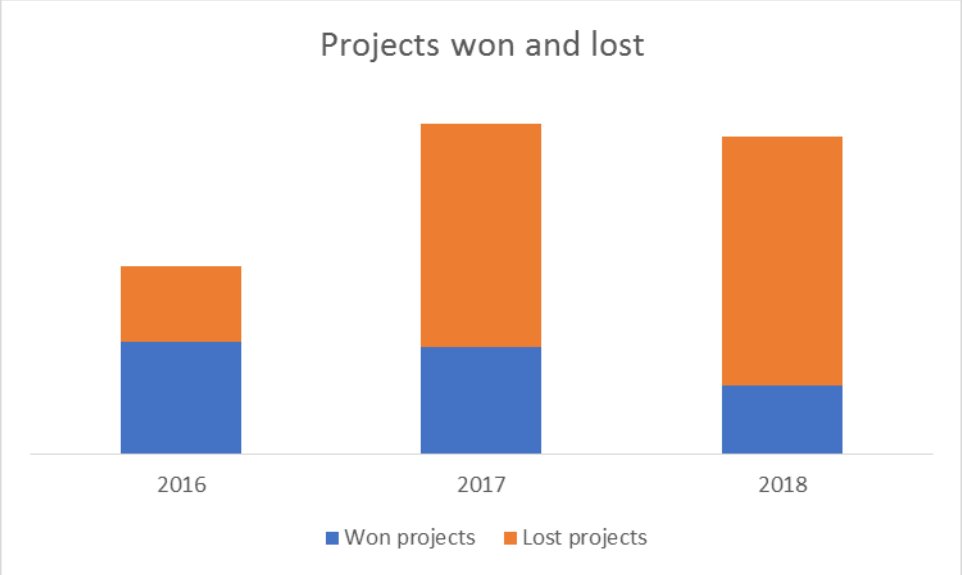

Figure 4: Outcome of WTC's bids (by project)

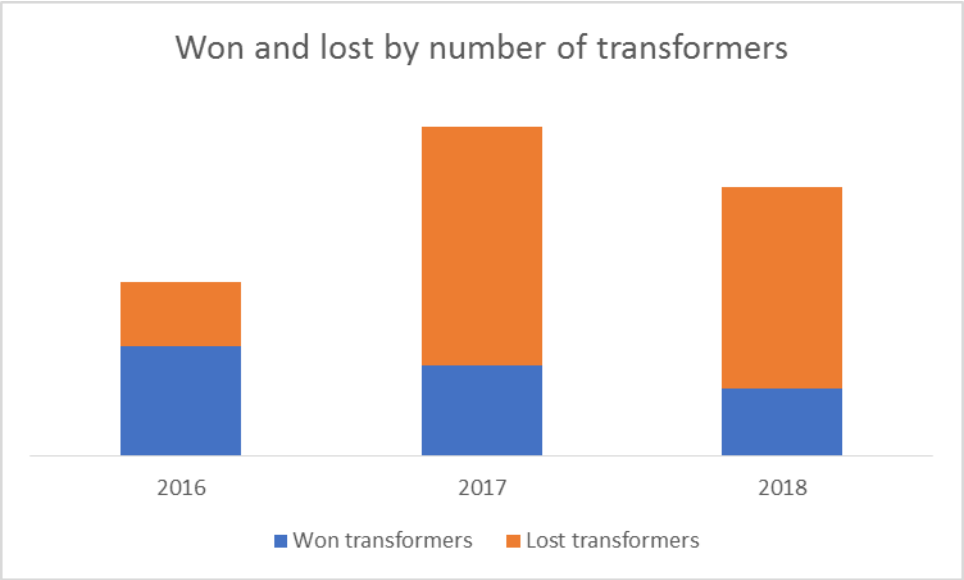

Figure 5: Outcome of WTC's bids (by number of power transformers)

During the course of the inquiry the verification team will source further information from other parties to these tenders. The verification team has also requested further information from end users (the tenderers) in order to ascertain the importance of various evaluation criteria in their purchasing decisions.

The verification team's consideration of WTC's tender information is contained at **Confidential Attachment 3**.

7.4.2 Sales

In the application, WTC claims that the market share of goods from subject countries has increased during the injury analysis period. WTC has assessed this based on 'value' rather than 'volume'. As each power transformer is built to its own specifications and value varies significantly from project to project a simple volume analysis could be misleading in assessing injury.

The verification team reviewed the market share and sales in terms of volume (units) and value (sales value $AUD) in figures 1 and 2 in section 4.5 above. It is observed that WTC's share of the market in terms of volume and value has declined during the inquiry period.

The verification team finds that there is reasonable grounds to support the applicant's claims that it has experienced injury in the form of reduced volumes and reduced market share.

7.4.3 Market share

In section 4.5 and from figures 1 and 2 it is apparent that goods from subject countries have re-entered the market in 2018. The following illustrates the impact of exports as a percentage of market share (by value and units).

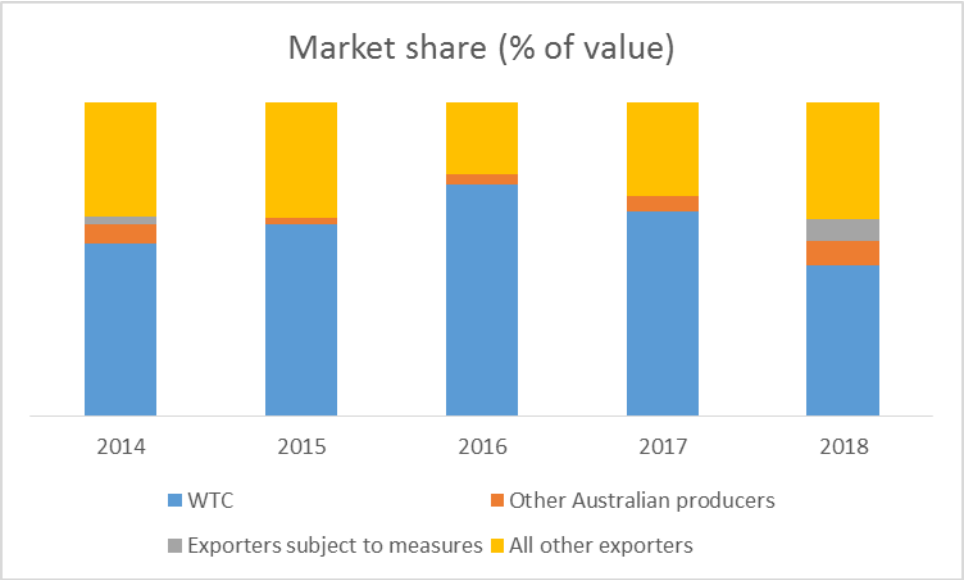

Figure 6: Market share (by value of power transformers $AUD)

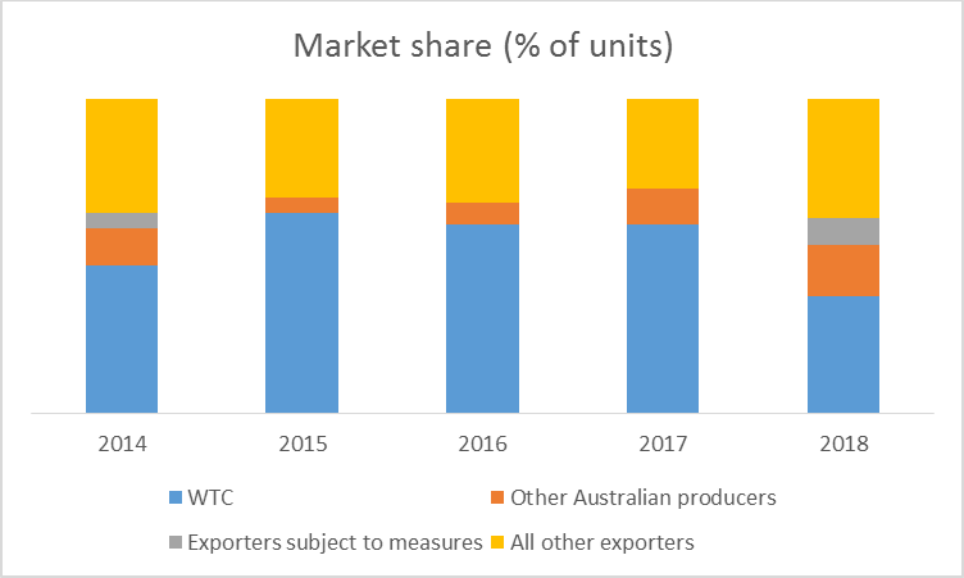

Figure 7: Market share (by number of power transformers)

From the above illustrations, WTC has experienced reduced market share. The analysis of the market in terms of units shows other Australian producers taking a larger share of the market in comparison with imports from subject countries. However, the analysis of the value (figure 7 above) shows that the value of those units are almost equal in value to the transformers from subject countries (despite the fewer units).

7.5 Price effects

WTC provided sales and CTMS data that was verified by the verification team. The verification team filtered out any work not directly related to the production and sale of power transformers in Australia to arrive at sales, cost and margin of like goods across the injury period.

7.5.1 Price suppression

Price suppression occurs when price increases, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between revenues and costs.

Due to the specialised nature of power transformers it is not meaningful to use an averaged unit price in order to ascertain trends in pricing. As such the verification team has analysed the total sales values and CTMS for like goods over the injury analysis period. It was found that the CTMS was consistently higher than the sales value at ex-works across the period, and that the gap was wider after 2016:

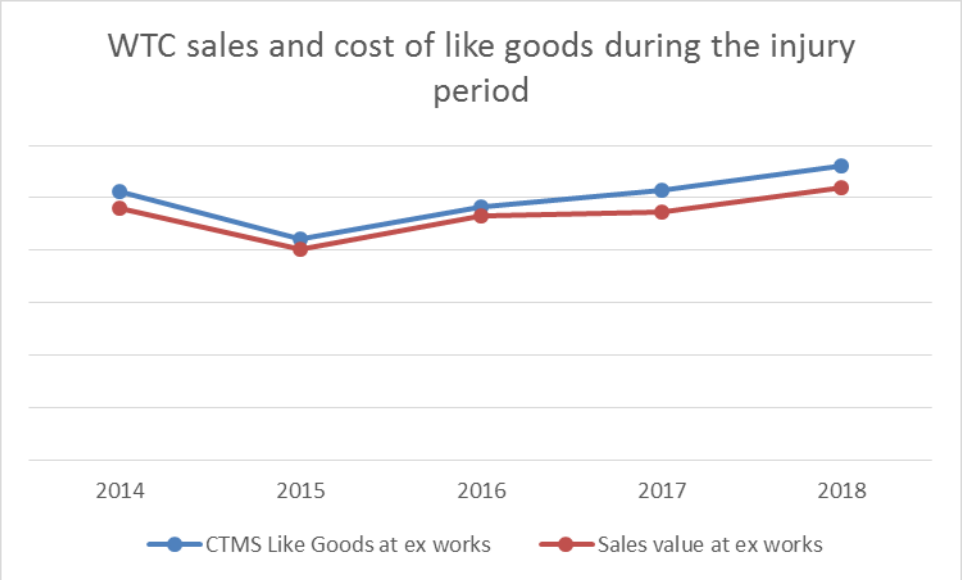

Figure 8: CTMS and sales revenue

The verification team is satisfied that there are reasonable grounds to support the applicant's claims of price suppression.

7.5.2 Price Depression

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

As each power transformer is built to unique specifications and pricing may be vastly different between transformers, a simple trend in pricing is not meaningful. However, the verification team analysed the won and lost tender documentation provided by WTC for all tenders that it participated in during the inquiry period. The documentation provides evidence to support claims that prices were reduced during the course of tender negotiations, in some instances multiple times prior to winning the tender.

The verification team is satisfied that there are reasonable grounds to support the applicant's claims of price depression.

The verification team's consideration of price effects is at **Confidential Attachment 4**.

7.6 Profits and profitability

As demonstrated in figure 5 above, costs have consistently been above sales revenues related to the like goods, reducing profit margins. In addition, WTC has experienced a smaller proportion of tender wins over the inquiry period (figures 4 and 5 refer). The verification team has also seen reductions to bid prices during the course of tender negotiations for certain projects. The flow through effect on volumes and prices has meant reduced sales revenues as well as a smaller number of projects for apportioning fixed costs. All of these factors have resulted in a net loss position for WTC during the injury analysis period.

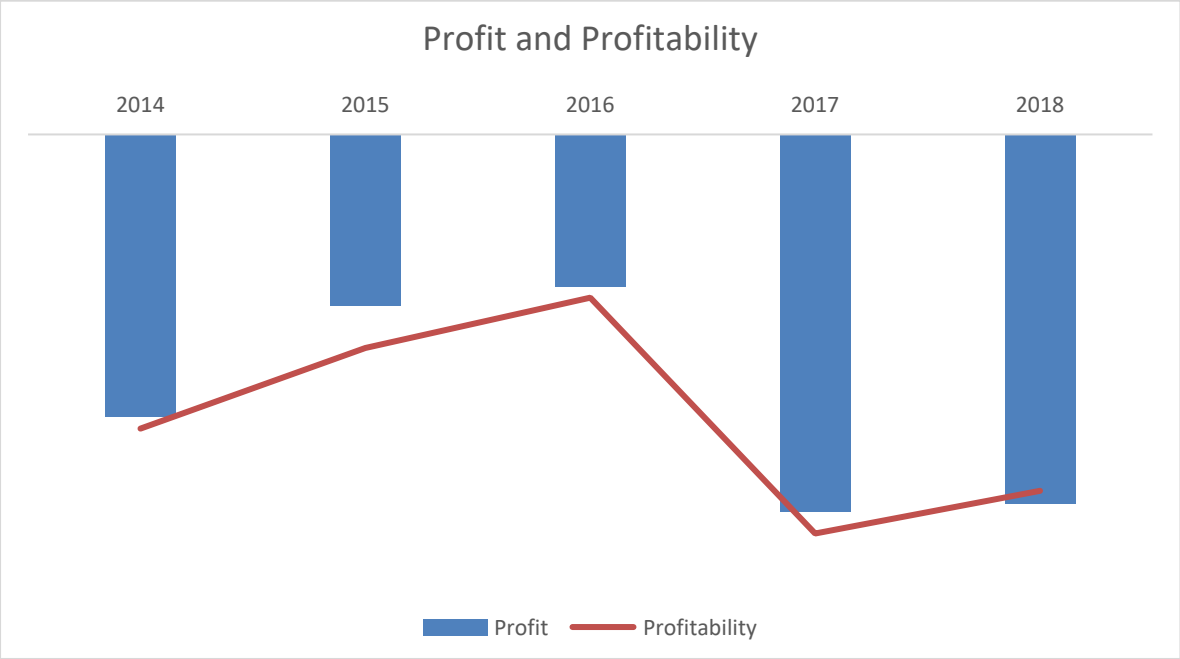

Figure 9: WTC's Australian profit and profitability of the goods

WTC's profit position saw some improvement between 2014 and 2016 with a sharp deterioration from 2016.

The verification team's consideration of profit and profitability is at **Confidential Attachment 5**.

7.7 Other economic factors

In its application, WTC claimed that it had experienced injury in the form of other injury factors, including:

- reduced cash flow;
- reduced capacity utilisation;
- reduced return on investment;
- reduced productivity;
- reduced revenue;
- reduced employment;
- reduced wages;

- reduced assets;
- reduced R&D expenditure; and
- reduced capital investment.

7.7.1 Reduced cash flow

WTC provided a cash flow index based on its accounts receivables balances across the injury period to substantiate its claim. It was found that the balances have fluctuated in the injury period as evidenced in figure 6 below. The cash flow position has generally trended down since 2015 and has not recovered to pre-2015 levels. The verification team is satisfied that there are reasonable grounds to support this claim.

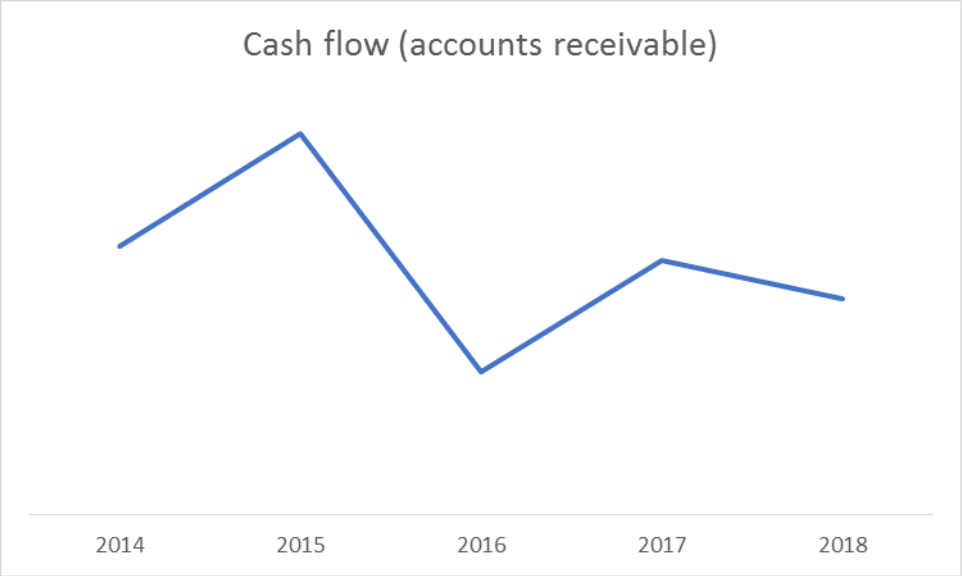

Figure 10: WTC's Cash flow

7.7.2 Capacity utilisation

WTC claims injury in the form of reduced capacity utilisation. Capacity remained unchanged during the period. The applicant advised the verification team that capacity is based on standard cycle times for each of the processes in the manufacture of the transformers. It has worked out how total output in MVA that can be produced at full capacity. The verification team observed the bays within the manufacturing facility and the various testing areas for large and medium sized transformers. Capacity utilisation reduced in the first half of the injury period, and increased again 2017. From the peak in 2017 the capacity utilisation is on a downwards trajectory in 2018 as illustrated in the graph below. The verification team is satisfied that there are reasonable grounds to support the claim of injury in the form of reduced capacity utilisation.

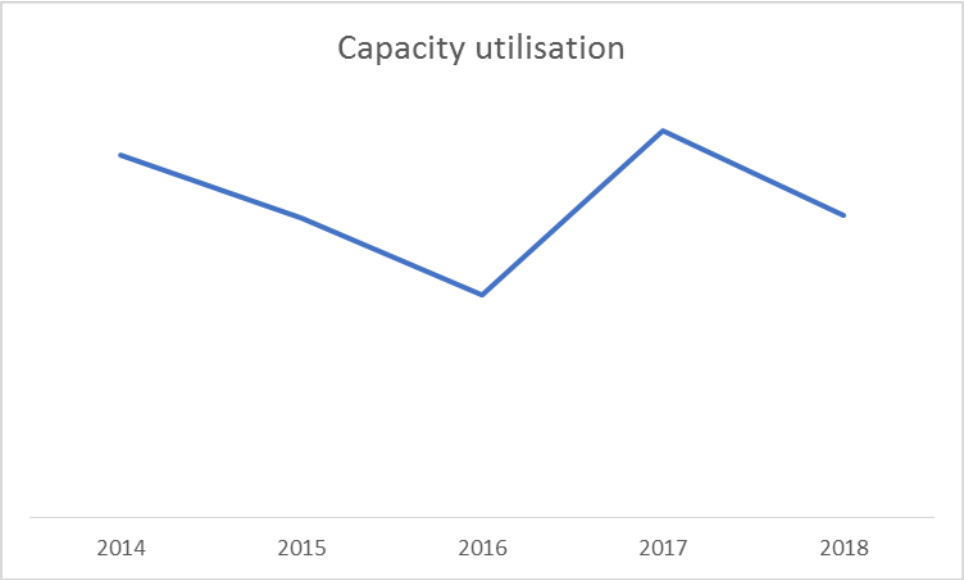

Figure 11: WTC's Capacity utilisation

7.7.3 Return on investment

WTC claimed injury in the form of reduced return on investment (ROI). WTC calculated ROI across the injury period based on EBIT over revenue. WTC has experienced a negative ROI during the injury analysis period. There was an improvement between 2015 and 2016 (while still negative) before deteriorating again between 2016 and 2018. The verification team is satisfied that there are reasonable grounds to support the claim of injury in the form of reduced ROI.

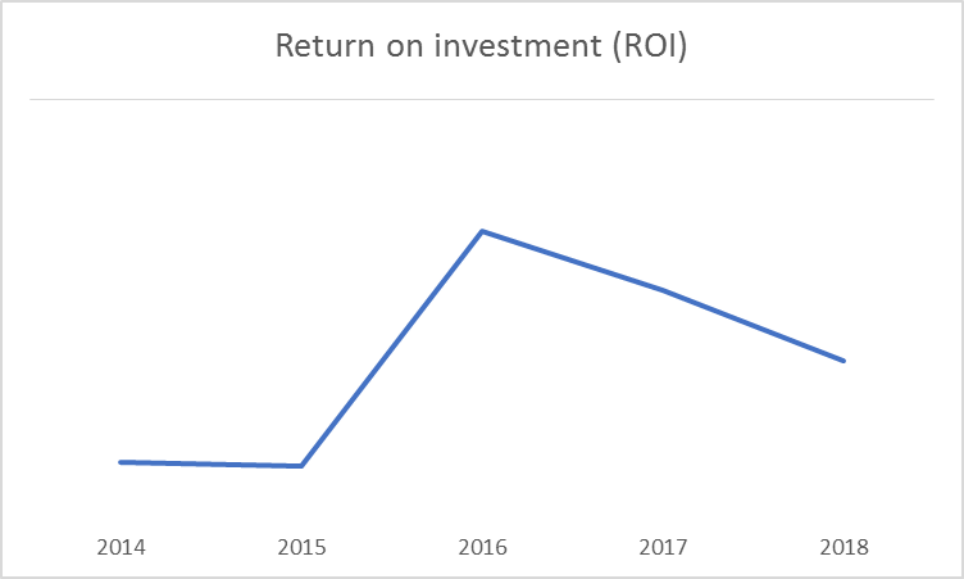

Figure 12: WTC's return on investment

7.7.4 Productivity

Productivity has been volatile during the injury analysis period with a decline between 2015 and 2016 and again between 2017 and 2018. Productivity is the measure of output (in MVA) by the number of employees. The verification team found that employee numbers were relatively stable over the period while output follows a similar trend to productivity. The verification team is satisfied that there are reasonable grounds to support the claim of reduced productivity.

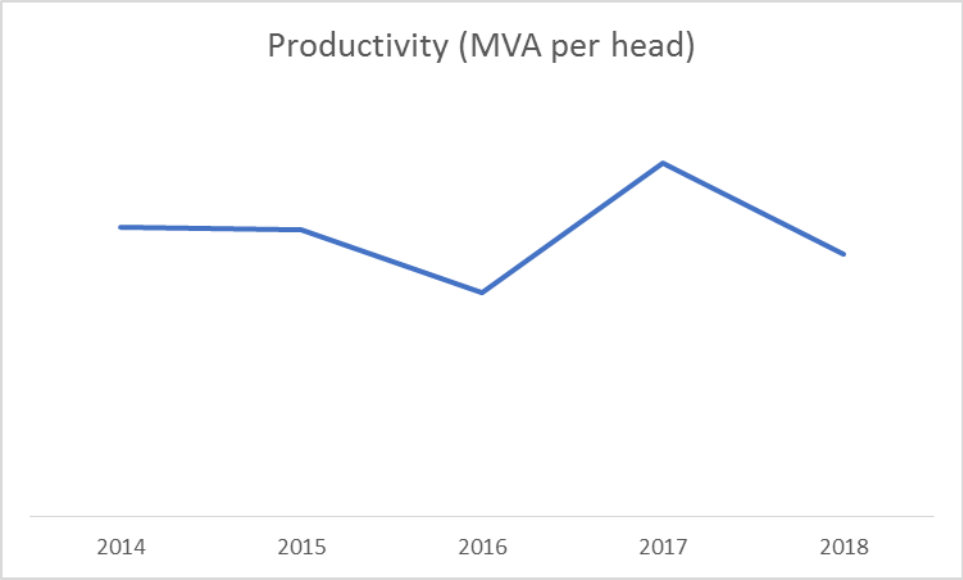

Figure 13: WTC's productivity

7.7.5 Revenue

The revenue has remained relatively stable during the injury analysis period with a decline in 2018. The verification team considers the decline in 2018 to be in response to the volume effects identified in section 7.4 of this report. The verification team is satisfied that there are reasonable grounds to support the claims of injury in the form of reduced revenue.

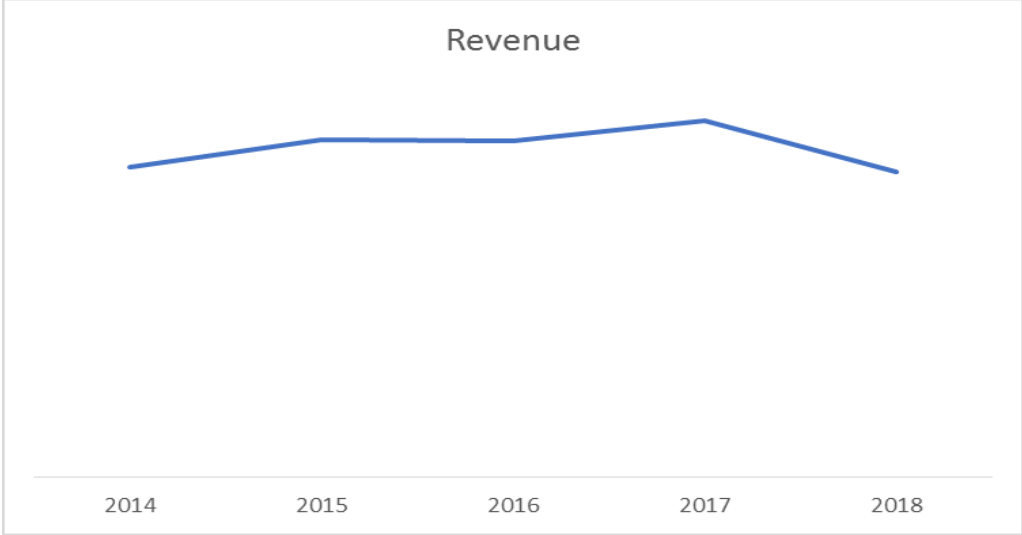

Figure 14: Revenue

7.7.6 Other indicators

Employment - WTC has experienced a minor decline in employment numbers, with a recovery from 2016 through the injury analysis period.

Reduced wages - While overall wages saw more pronounced reductions and increases, on an average basis wages have remained fairly stable.

Assets – After an initial decline in assets related to like goods, WTC has experienced a recovery during the injury analysis period.

R&D Expense – While WTC has experienced a decline in R&D expense during the injury analysis period, there has been a recovery since 2017.

Capital investment – Capital investment declined between 2014 and 2015, however has since recovered.

The verification team's consideration of injury factors is at **Confidential Attachment 6**.

7.8 Conclusion

Based on an analysis of the information provided in the application and verified during and after the visit, the verification team is satisfied that the company has experienced injury in the form of:

- reduced sales volumes;
- reduced market share;
- price depression;
- price suppression;
- reduced profit;
- reduced profitability;
- reduced cash flow;
- reduced capacity utilisation;
- reduced return on investment;
- reduced productivity; and
- reduced revenue;

The verification team found insufficient grounds to support the claims that the company had experienced injury in the form of:

- reduced employment;
- reduced wages;
- reduced assets;
- reduced R&D expense; and
- reduced capital investment

8 IMPACT OF THE EXPIRY OF ANTI-DUMPING MEASURES

Under the terms of subsection 269ZHF(2), in order to recommend that the Minister for Industry, Science and Technology take steps to secure the continuation of the anti-dumping measures, the Commissioner must be satisfied that the expiration of the anti-dumping measures would lead, or would be likely to lead, to a continuation of, or a recurrence of:

- dumping; and
- the material injury that the anti-dumping measure is intended to prevent.

Accordingly, the verification team sought WTC's views on these matters. WTC was of the view that the expiration of the anti-dumping measures would lead to a continuation of, or a recurrence of, dumping and material injury to the company.

8.1 Continuation or recurrence of dumping

At the visit WTC reiterated the claims in its application that:

- following the imposition of measures in 2014, Indonesia vacated the Australian market, imports from Taiwan declined, and imports from Thailand that are not subject to measures have maintained a steady share of the Australian market;
- stakeholders from Indonesia, Thailand and Vietnam took legal and other actions in response to the original investigation, indicating a desire to continue exporting into the Australian market;
- the power transformer industry is a global one dominated by large multinational organisations with distribution links to the Australian market. The Australian market is seen as an attractive market for multinational companies with Asian production capability due to its geographic proximity; and
- there is overcapacity in the global power transformer industry due to production capacity increasing at a time when significant markets are inaccessible due to protective measures, or experiencing reduced demand.

WTC assert that these factors indicate that the discontinuation of measures would lead to a recurrence of dumping.

The verification team has identified that exports of power transformers from Fortune Electric Co., Ltd in Taiwan recommenced in 2018 and that PT CG Power Systems Indonesia has manufactured power transformers in 2018 for supply into the Australian market in 2019.

The Commission will assess whether these goods are dumped during the course of the inquiry.

8.2 Continuation or recurrence of material injury

8.2.1 Exports from countries subject to measures

Figures 1,2, and 3 above outline the volume related injury that WTC has experienced in the verification team's analysis of sales value, sales volume, market share and the outcome of tenders.

Injury in the form of reduced sales volume is a result of unsuccessful tenders. During the visit, WTC claimed that it is losing tenders to allegedly dumped power transformers from the subject countries despite the measures. The verification team found a recurrence of exports from countries subject to measures in 2018.

8.2.2 Distribution links in Australia

The verification team has been advised of panel agreements that include exporters from countries subject to measures. These exporters have supplied power transformers to customers in Australia in competition with WTC during the inquiry period. The verification team has requested further information from end users (the tenderers) concerning their purchases in the period and any agreements in place with exporters subject to measures.

8.2.3 Pricing of tenders

In its application, WTC claimed that it did not see a price recovery following the imposition of measures. The market share, price and profit related injury discussed in Chapter 7 above supports WTC's claims of ongoing injury. In the absence of the anti-dumping measures, exporters from the subject countries may be more price competitive, which may result in injury in the form of price depression and price suppression during contract negotiations.

8.2.4 Anti-dumping measures in other jurisdictions

WTC claims that the imposition of measures in the US and Canadian markets together with reduced demand in Asian and Middle Eastern markets will make Australia an attractive export market for subject countries in the absence of measures.

8.3 Conclusion

The verification team is satisfied that there are reasonable grounds to support WTC's claim that the expiration of measures would lead, or would be likely to lead, to a continuation of, or a recurrence of dumping and material injury that the anti-dumping measures were intended to prevent.

9 UNSUPPRESSED SELLING PRICE

Unsuppressed selling price (USP) and non-injurious price (NIP) issues are examined at an early stage of an inquiry. The Commission generally derives the NIP 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 USP.

As part of an inquiry, the Commission will generally establish the USP using the following hierarchy:

- Market approach: industry selling price at a time when the Australian market was unaffected by dumping;
- Construction approach: the Australian industry's CTMS, plus a reasonable rate of profit; or
- Selling prices of un-dumped imports in the Australian market.

Having calculated the USP, the Commission then calculates the NIP by deducting costs incurred in getting the goods to the FOB point at export (or another point if appropriate). The deductions normally include overseas freight, duty, insurance, into store costs and amounts for other importer expenses and profit.

The Commission considers that power transformers are complex items of capital equipment built to the specifications of the purchaser, where it is unlikely that any two power transformers are identical. Accordingly, neither sales nor constructed USPs are considered an appropriate method for calculating NIPs for power transformers. In the absence of reliable information to establish a USP using one of the primary methods outlined above, the Commission considers that it is appropriate to recommend that NIPs for power transformers exported to Australia be set by reference to the corresponding normal values.

10 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Verification work program
Confidential Attachment 1	Market size analysis
Confidential Attachment 2	WTC sales and CTMS data
Confidential Attachment 3	WTC tender information
Confidential Attachment 4	Price effects analysis
Confidential Attachment 5	Profit and profitability analysis
Confidential Attachment 6	Injury factor analysis