



## **Exporter Verification Report**

### **Verification & Case Details**

<b>Initiation Date</b>	18/03/2019	<b>ADN:</b>	2019/35
<b>Case:</b>	Power Transformers - Dumping Investigation - Wilson Transformer Company Pty Ltd - China		
<b>Case Number</b>	507		
<b>Exporter</b>	CHINT Electric Co., Ltd		
<b>Location</b>	Desktop verification		
<b>Verification from</b>		<b>to</b>	
<b>Investigation Period</b>	1/01/2016	<b>to</b>	31/12/2018

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT THE FINAL POSITION OF THE ANTI-DUMPING COMMISSION**

**CONTENTS**

**CONTENTS .....2**

**1 COMPANY BACKGROUND .....3**

1.1 CORPORATE STRUCTURE AND OWNERSHIP .....3

1.2 RELATED PARTIES .....3

**2 THE GOODS AND LIKE GOODS .....4**

2.1 PRODUCTION PROCESS .....4

2.2 THE GOODS UNDER CONSIDERATION .....4

2.3 THE GOODS EXPORTED TO AUSTRALIA .....4

2.4 LIKE GOODS SOLD ON THE DOMESTIC MARKET .....4

2.5 MODEL MATCHING .....4

2.6 LIKE GOODS – ASSESSMENT .....5

**3 UPWARDS VERIFICATION OF SALES .....6**

3.1 VERIFICATION OF SALES COMPLETENESS AND RELEVANCE .....6

3.2 COMPLETENESS AND RELEVANCE FINDING .....7

**4 DOWNWARDS VERIFICATION OF SALES .....8**

4.1 VERIFICATION OF SALES ACCURACY .....8

4.2 SALES ACCURACY FINDING .....8

**5 COST TO MAKE AND SELL .....9**

5.1 VERIFICATION OF COMPLETENESS AND RELEVANCE OF CTMS DATA .....9

5.2 COMPLETENESS AND RELEVANCE FINDING OF CTMS DATA .....9

5.3 VERIFICATION OF CTMS ALLOCATION METHODOLOGY .....9

5.4 CTMS ALLOCATION METHODOLOGY FINDING .....10

5.5 VERIFICATION OF ACCURACY OF CTMS DATA .....10

5.6 ACCURACY FINDING OF CTMS DATA .....11

**6 EXPORT PRICE .....12**

6.1 THE IMPORTERS .....12

6.2 THE EXPORTER .....12

6.3 ARMS LENGTH .....12

6.4 EXPORT PRICE – ASSESSMENT .....12

**7 DOMESTIC SALES SUITABILITY .....14**

7.1 ARMS LENGTH .....14

7.2 ORDINARY COURSE OF TRADE .....14

7.3 SUITABILITY OF DOMESTIC SALES .....14

**8 ADJUSTMENTS .....15**

8.1 RATIONALE AND METHODOLOGY .....15

8.2 ADJUSTMENTS .....15

**9 NORMAL VALUE .....16**

**10 DUMPING MARGIN .....17**

**11 APPENDICES AND ATTACHMENTS .....18**

# **1 COMPANY BACKGROUND**

## **1.1 Corporate Structure and Ownership**

CHINT Electric Co., Ltd (CHINT) is a privately owned company, primarily engaged in the production and sale of power transmission, including power transformers, high voltage switches, low/medium voltage switchgear, voltage apparatus and cables. Its products are sold domestically and to Sweden, Mexico, Pakistan, Tanzania, the European Union and Australia

The shareholders of CHINT are natural persons and a corporate group entity, which comprises of a number of subsidiaries.

CHINT in turn owns either directly or indirectly and in varying percentages several subsidiaries.

## **1.2 Related Parties**

The verification team examined the relationships between related parties involved in the manufacture and sale of the goods.

### **1.2.1 Related Customers**

In its response to the exporter questionnaire (REQ), CHINT stated that it did not sell power transformers on the Australian or domestic market to related customers during the investigation period.

However, the exporter explained a portion of its Australian export sales are facilitated by the following related party trading companies:

- CHINT Electric International Co., Ltd; and
- CHINT Electric International (HK) Co., Ltd

### **1.2.2 Related Suppliers**

In its REQ, CHINT advised that it did not have any related suppliers in the manufacture of power transformers.

## 2 THE GOODS AND LIKE GOODS

### 2.1 Production Process

CHINT's production of power transformers encompasses the following processes:

- construction of the copper coil;
- construction of the core plate;
- assembly of the active component;
- desiccation; and
- testing.

### 2.2 The goods under consideration

The goods under consideration are:

*Liquid dielectric power transformers with power rating 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.*<sup>1</sup>

### 2.3 The goods exported to Australia

The verification team is satisfied that CHINT produced and exported the goods to Australia in the investigation period.

### 2.4 Like goods sold on the domestic market

The verification team was satisfied that CHINT sold like goods in the domestic market.

The verification team considers that the goods manufactured for domestic consumption are identical to, or have characteristics closely resembling, the goods exported to Australia, as they:

- are produced in the same way, subject to individual customer specifications;
- are produced at the same facilities, using similar raw material inputs and manufacturing processes;
- the goods compete in the same market sectors, following similar negotiation processes; and
- can be considered functionally alike, as they have similar end uses.

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<sup>1</sup> Refer to ADN 2019/35 for more information – Anti-Dumping Commission, ADN 2019/35 – Initiation of an investigation into alleged dumping, Investigation No. 507, Electronic Public Record, Anti-Dumping Commission, <<https://www.industry.gov.au/data-and-publications/anti-dumping-commission-current-cases>>.

## **2.5 Model matching**

ADN 2019/35 set out the Commission's position that, "*in accordance with the Commission's Model Control Code (MCC) policy, the MCC structure is not considered to be meaningful for the goods subject to measures as each sale of power transformers is a unique model which is not necessarily comparable to any other sale.*"

CHINT expressed the view that power transformers are inherently complex in nature given the level of customisation that is required and that multiple variables affect selling prices. As such, it considers that no two power transformers are identical. Consequently, CHINT considers that adjustments to domestic prices of power transformers cannot be made to allow for meaningful comparison with power transformers exported to Australia.

Based on an assessment of power transformers sold by CHINT, the verification team considers that the significant differences in specifications observed, including the combination of MVA and kV, render domestic sales of power transformers unsuitable for fair comparison to export sales. The verification team does not consider that any reasonable price adjustments could be made to domestic sales to ensure fair comparison to export sales to Australia.

## **2.6 Like goods – assessment**

The verification team considers that the goods produced by CHINT for domestic sale have characteristics closely resembling those of the goods exported to Australia and are therefore 'like goods' in accordance with subsection 269T(1) of the *Customs Act 1901* (the Act).<sup>2</sup>

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<sup>2</sup> References to any section or subsection in this report relate to provisions of the Act, unless specifically stated otherwise.

**3 UPWARDS VERIFICATION OF SALES**

**3.1 Verification of Sales Completeness and Relevance**

Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial accounts. The verification team verified the completeness and relevance of the export and domestic sales listings provided in the REQ by reconciliation in accordance with ADN. No 2016/30.

The methodology adopted by the verification team is set out below:

- Reconciled the total revenue as per CHINT’s audited financial statements for the financial years 2016-2018 to the total revenue as captured in its trial balances from its accounting system for the same period. The verification team was satisfied as to the reliability and integrity of CHINT’s trial balances and associated outputs from its accounting system;
- Obtained from CHINT’s accounting system a report capturing domestic sales of all products during the investigation period. The exporter had applied formulas and a review of internal product codes to differentiate that products subject to the investigation from products that were outside the scope of the investigation. The verification team assessed the formula and internal product codes for reasonableness of categorisation. Products designated as being the goods by the exporter were matched to CHINT’s domestic sales listing as submitted in its REQ; and
- Obtained from CHINT’s accounting system a report capturing third country and Australian sales. The verification team reconciled products classified as the goods under consideration to the Australian and third country sales listings submitted by CHINT in its REQ.

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

**3.1.1 Exceptions during Verification of Sales Completeness and Relevance**

	<b>Exception</b>	<b>Resolution</b>	<b>Evidence Relied On</b>
1	<p>The verification team had identified that the domestic sales listing assimilated sales of power transformers with power ratings that were outside the scope of the investigation.</p> <p>It was observed that these sales represented a negligible portion of the total sales value of all domestic sales.</p>	<p>The verification team removed all transactions of product types that were not within the scope of the investigation.</p>	<p>Internal product codes that describe the properties of the goods</p>

### **3.2 Completeness and Relevance Finding**

The verification team are satisfied that the sales data provided in the exporter questionnaire response by CHINT, including any required amendments as outlined as an exception above, is complete and relevant.

**4 DOWNWARDS VERIFICATION OF SALES**

**4.1 Verification of Sales Accuracy**

The accuracy of data submitted in the REQ is verified by reconciliation "downwards" to source documentation. This part of verification involves agreeing the volume, value and other key information fields within the sales and cost data down to source documentation. This verifies the accuracy of the data (e.g. for sales data, the volume and value of the records for selected transactions are accurate and reflect sales that did occur). The verification team verified the accuracy of the export and domestic sales listings submitted in the REQ by reconciling these to source documents (also submitted in the REQ) in the manner described above, in accordance with ADN. No 2016/30.

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

**4.1.1 Exceptions during Verification of Sales Accuracy**

No.	Exception	Resolution	Evidence Relied On
1	The values in respect of inland transport as reported in the domestic sales listings had incorporated an amount in respect of VAT.	The verification team revised the inland transport expenses in the Australian and domestic sales listings to remove the VAT amounts.	Commercial invoices in respect of inland transport.
2	For one sampled domestic sales transaction the inland transport amount had been incorrectly recorded.	The inland transport amount for the relevant transaction was amended to reflect source documentation.	Commercial invoices in respect of inland transport.

**4.2 Sales Accuracy Finding**

The verification team are satisfied that the sales data provided in the exporter questionnaire response by CHINT, including any required amendments as outlined as an exception above, is accurate.



## **5 COST TO MAKE AND SELL**

### **5.1 Verification of completeness and relevance of CTMS data**

The verification team verified the completeness and relevance of the cost to make and sell (CTMS) information provided in the REQ by CHINT in accordance with ADN No. 2016/30. The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

#### **5.1.1 Exceptions during Verification of Completeness and Relevance of CTMS data**

No.	Exception	Resolution	Evidence Relied On
1	The verification team had identified that the domestic CTMS spreadsheet compiled by the exporter had assimilated data in respect of product types that were not within the scope of the investigation.	The verification team removed all transactions of product types that were not within the scope of the investigation.	Internal product codes that describe the properties of the goods.

### **5.2 Completeness and Relevance Finding of CTMS data**

The verification team are satisfied that the sales data provided in the exporter questionnaire response by CHINT, including any required amendments as outlined as an exception above, is complete and relevant.

### **5.3 Verification of CTMS Allocation Methodology**

The verification team verified the reasonableness of the methodology used to allocate costs in the revised Australian and domestic CTMS listings in accordance with ADN No. 2016/30.

Cost Area	Methodology Applied	Evidence Relied On
Raw Materials	Actual direct cost incurred for each power transformer or where relevant (i.e. for raw materials used across all power transformers), a standard consumption volume of raw material as determined for the power transformer.	Yong You production system and source documentation (raw material invoices and inventory ledgers).
Labour	Direct labour costs can be directly attributable to a power transformer. Indirect labour is allocated applying a labour cost ratio.	Yong You production system and source documents (accounting ledgers for labour).

## PUBLIC RECORD

Cost Area	Methodology Applied	Evidence Relied On
Manufacturing Overheads (including depreciation)	Direct and indirect manufacturing overheads are allocated to each power transformer on the basis of the proportion of raw material inputs consumed.	Yong You Production system and source documentation (trial balances and ledgers).
Selling, general and administration expenses	Determining the percentage of the relevant SG&A expenses incurred relative to the cost of the goods sold (COGS) during the investigation period and application of this percentage to the cost to make for individual product types/power transformers.	SG&A listing from trial balance.

The verification team identified the below issues during this process:

No.	Exception	Resolution	Evidence Relied On
1	The verification team considers that the quantum of SG&A expenditure incurred is typically a function of sales rather than production costs. Therefore, the verification team is of the view that it is more appropriate for SG&A amounts to be allocated to the Australian and domestic CTMS on the basis of sales value.	The allocation of SG&A expenses to the Australian and domestic CTM was revised by the verification team adopting the following methodology: <ul style="list-style-type: none"> <li>determining the proportion of SG&amp;A expenses incurred to the total sales revenue over the investigation period; and</li> <li>applying this percentage to the revenue generated from each sale.</li> </ul>	SG&A listing from trial balance Audited financial statements

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

### 5.4 CTMS Allocation Methodology Finding

The verification team are satisfied that the allocation methodology for the CTMS data provided in CHINT's REQ, including any required amendments as outlined as an exception above, is reasonable.

### 5.5 Verification of Accuracy of CTMS data

The verification team verified the accuracy of the CTMS information provided in the REQ by reconciling it to source documents in accordance with ADN No. 2016/30.

## **5.6 Accuracy Finding of CTMS data**

The verification team are satisfied that the CTMS data provided in the exporter questionnaire response by CHINT is accurate.

## 6 EXPORT PRICE

### 6.1 The importers

In relation to all goods exported by CHINT on FOB terms, the verification team considers that the Australian customer listed in CHINT's REQ to be the beneficial owners of the goods at the time of importation and therefore the importer of the goods.

In relation to all goods exported by CHINT on DDP terms, the verification team considers that CHINT was the beneficial owner of the goods at the time of importation into Australia, and therefore the importer of the goods.

### 6.2 The exporter

The Commission generally identifies the exporter as a principal in the transaction, located in the country of export from where the goods were shipped, that gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or its own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, that owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

The verification team was satisfied that for all Australian export sales during the investigation period CHINT was the exporter of the goods.

### 6.3 Arms length

In respect of CHINT's Australian sales of the goods during the period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.<sup>3</sup>

The verification team has not identified evidence that would suggest that that the prices set between CHINT and its related party traders are influenced by their commercial relationships. Therefore the verification team considers all export sales to Australia made by CHINT during the investigation period were arms lengths transactions.

### 6.4 Export Price – assessment

In respect of Australian sales of the goods by CHINT to the Australian customer listed in the REQ, the verification team recommends that the export price cannot be determined under section 269TAB(1)(a) or 269TAB(1)(b). The verification team recommends that the export price be calculated under section 269TAB(1)(c) having regard to all the circumstances of the exportation. The verification team considers this the appropriate method of calculating export price as CHINT is responsible for importation of the goods and sells them on DDP terms.

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<sup>3</sup> Section 269TAA of the Act refers.

## **PUBLIC RECORD**

In respect of Australian sales of the goods by CHINT made through a related party trading company, the verification team recommends that the export price cannot be determined under section 269TAB(1)(a) or 269TAB(1)(b). The verification team recommends that the export price be calculated under section 269TAB(1)(c) having regard to all the circumstances of the exportation. The verification team considers this the appropriate method of calculating export price as CHINT did not sell these goods to the importer. The verification team recommends the export price be determined for these sales as the price paid to CHINT by the trading company.

The verification team's preliminary export price calculations are at **Confidential Appendix 1**.

## 7 DOMESTIC SALES SUITABILITY

The verification team has assessed the domestic sales to determine if the prices paid in respect of domestic sales of like goods are suitable for assessing normal value under subsection 269TAC(1).

### 7.1 Arms length

In respect of domestic sales of the goods made by CHINT to its customers during the investigation period, the verification team found no evidence to indicate that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise received a benefit for, or in respect of, the whole or any part of the price.

The verification team therefore considers that all domestic sales made by CHINT to its customers during the investigation period were arms length transactions.

### 7.2 Ordinary course of trade

Section 269TAA provides that if like goods are sold in the country of export at a price less than the cost of such goods, and are unrecoverable within a reasonable period, then they are taken not to have been sold in the ordinary course of trade (OCOT).

The verification team compared the revenue (i.e. net sales value) for each domestic sale of like goods to the corresponding CTMS to test whether those sales were profitable.

Where the volume of unprofitable sales exceeded 20 per cent for a particular model, the verification team tested the recoverability of the unprofitable sales by comparing the revenue for each transaction to the corresponding weighted average CTMS over the investigation period. Those sales found to be unrecoverable were considered not to be in the OCOT

### 7.3 Suitability of domestic sales

Section 269TAC(2)(a)(i) provides that the normal value of goods exported to Australia cannot be ascertained under section 269TAC(1) where there is an absence, or low volume, of sales of like goods in the market of the country of export that would be relevant for the purposes of determining a price under section(1).

As outlined in Chapter 2, export sales of the goods are specific to customer requirements and not necessarily comparable domestic sales of the goods. Moreover, the verification team considers that there were significant differences in specifications between CHINT's exports to Australia and domestic sales, which render domestic sales unsuitable for model matching.

The verification team therefore recommends calculating a constructed normal value under section 269TAC(2)(c), in accordance with the *Customs (International Obligations) Regulation 2015* ("the Regulation"), as outlined at Chapter 9 of this report.

**PUBLIC RECORD**

**8 ADJUSTMENTS**

To ensure the normal value is comparable to the export price of goods exported to Australia at free-on-board (FOB) terms, the verification team has considered the following adjustments in accordance with subsection 269TAC(9).

**8.1 Rationale and Methodology**

<b>Adjustment Type</b>	<b>Rationale for Adjustment</b>	<b>Calculation Methodology</b>	<b>Evidence</b>	<b>Claimed in REQ?</b>
Domestic credit terms	Different payment terms for domestic customers - downwards adjustment to the normal value for domestic credit to ensure a fair comparison to the FOB export price.	Applicable interest rate from the Bank of China, and payment days from sample sales contract applied to constructed normal value.	Payment terms were verified to relevant source documents.	N
Export inland transport	Power transformers sold for export had different inland transport and handling expenses – upward adjustment to ensure fair comparison.	Weighted average inland transport and handling costs for Australian export sales.	Commercial invoices and supporting documentation.	Y
Export credit terms	Different payment terms for export sales - an upwards adjustment to the normal value for export credit terms to ensure a fair comparison to the FOB export price.	Applicable interest rate from the Bank of China, and payment days from sample sales contract applied to constructed normal value.	Payment terms were verified to relevant source documents.	N

**8.2 Adjustments**

<b>Adjustment Type</b>	<b>Deduction/addition</b>
Domestic credit terms	Deduction
Export inland transport and handling	Addition
Export credit terms	Addition

The verification team’s preliminary adjustment calculations are included in the normal value calculations at **Confidential Appendix 4**.

## 9 NORMAL VALUE

The verification team is satisfied that because of the absence, or low volume, of sales of like goods in the market of the country of export that would be relevant for the purposes of determining a normal value, the normal value of goods exported to Australia cannot be ascertained under subsection 269TAC(1).

The verification team has therefore calculated a preliminary normal value under subsection 259TAC(2)(c), as:

- The cost to make the goods exported to Australia in accordance with section 43(2) of the Regulation;
- The SG&A in accordance with section 44(2) of the Regulation, having regard to SG&A as the proportion of revenue of domestic sales of like goods, and applying this as a proportion of the goods based on the revenue of each sale; and
- An amount of profit in accordance with section 45(2) of the Regulation, based on the production and sale of like goods by CHINT in the OCOT.

The verification team's preliminary normal value calculations are at **Confidential Appendix 4**.



## **10 DUMPING MARGIN**

The dumping margin has been assessed by comparing the Australian export prices determined in respect of individual transactions to the corresponding normal values for the investigation period, in accordance with paragraph 269TACB(2)(b) of the Act.

The dumping margin in respect of the goods exported to Australia by CHINT during the investigation period is **20.6 per cent**.

Details of the preliminary dumping margin calculation are at **Confidential Appendix 5**.

**11 APPENDICES AND ATTACHMENTS**

<b>Confidential Appendix 1</b>	Export price
<b>Confidential Appendix 2</b>	CTMS
<b>Confidential Appendix 3</b>	Domestic sales
<b>Confidential Appendix 4</b>	Normal value
<b>Confidential Appendix 5</b>	Dumping margin
<b>Confidential Attachment 1</b>	Verification work program