



Exporter Verification Report

Verification & Case Details

Initiation Date	18/03/2019	ADN:	2019/35
Case:	Power Transformers - Dumping Investigation - Wilson Transformer Company PTY LTD - China		
Case Number	507		
Exporter	ABB Chongqing Transformer Co., Ltd and ABB Zhongshan Transformer Co., Ltd		
Location	Desktop verification		
Verification from		to	
Investigation Period	1/01/2016	to	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

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1 COMPANY BACKGROUND

1.1 Corporate Structure and Ownership

ABB Chongqing Transformer Co., Ltd (ABB CQ) is a joint venture established by Chongqing Machinery and Electric Co., Ltd and ABB (China) Limited.

ABB Zhongshan Transformer Co., Ltd (ABB ZS) is a limited liability company and is a subsidiary of ABB (China) Limited.

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

ABB CQ and ABB ZS both sold like goods to related parties on the domestic market.

All of ABB CQ's Australian sales of the goods in the investigation period were to a related entity, who was ultimately responsible for tendering with unrelated customers (end-users), and for installation of the goods.

Having regard to the price setting, price negotiation, and dealings with related and non-related entities, the verification team was satisfied that Australian sales of the goods were arms length transactions and has included all sales in its assessment of the variable factors relevant to ABB CQ.

ABB ZS's Australian sales of the goods in the investigation period were to an unrelated entity.

1.2.2 Related Suppliers

ABB CQ and ABB ZS primarily sourced raw materials and components for the manufacture of power transformers from unrelated domestic and overseas suppliers. Where materials or components were sourced from related parties, the verification team found no evidence that suggested prices were influenced due to their relationship.

The verification team was satisfied that raw material purchases from related parties were arms length transactions and has included all costs as incurred in its assessment of the variable factors relevant to ABB CQ and ABB ZS.

2 THE GOODS AND LIKE GOODS

2.1 Production Process

Major steps in the production process include:

- Construction of the core
- Winding
- Active part assembly
- Testing
- Drying
- Repacking and assembly
- Vacuum and oil filling
- Testing and final assembly
- Packing and delivery

2.2 The goods subject to measures

The goods subject to the dumping investigation 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.*¹

2.3 The goods exported to Australia

The verification team were satisfied that ABB CQ and ABB ZS produced and exported the goods to Australia.

2.4 Like goods sold on the domestic market

The verification team were satisfied that ABB CQ and ABB ZS sold like goods in the domestic market.

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

- are not distinguished from the exported goods during production (the exported goods and goods sold on the domestic market 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.

¹ 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 Like goods – assessment

The verification team considers that the goods produced by ABB CQ and ABB ZS 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).²

2.6 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 relevant for the goods as each sale of power transformers is a unique and is not necessarily comparable to any other sale.”³

In responses to the exporter questionnaire (REQ), ABB CQ and ABB ZS stated that each power transformer is unique and made to order, and provided information on the specifications of domestic and Australian sales. The verification team was satisfied that based on this information, domestic sales were not suitable for matching with Australian sales, due to differences in specifications.

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

³ ADN 2019/35 – Anti-Dumping Commission website, <<https://www.industry.gov.au/sites/default/files/adc>>.

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 reconciling these to audited financial statements in accordance with ADN. No 2016/30.

The verification team verified the relevance and completeness of ABB CQ's and ABB ZS's sales data as follows:

- total operating revenues for financial years 2016-2018 was tied to the amount for the investigation period (1 January 2016 to 31 December 2018) based on each entity's audited financial statements for the financial years 2016 and 2017 and internal management report for the financial year 2018;
- sales revenue and volumes were separated by product specifications to identify sales of subject and non-subject goods;
- sales revenue and volumes were separated into each market – domestic, Australia and third countries – based on the relevant sales division and customer;
- sales contracts relating to the goods entered outside the investigation period but where revenue was recognised during the investigation period was traced to relevant source documents; and
- the verification team reconciled the total net sales revenue and volumes of relevant products for each market to the respective sales listings that each entity provided in its response to the exporter questionnaire spreadsheet.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.2 Completeness and Relevance Finding

The verification team are satisfied that the sales data provided in the exporter questionnaire responses by ABB CQ and ABB ZS is complete and relevant.

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

4 DOWNWARDS VERIFICATION OF SALES

4.1 Verification of Sales Accuracy

The accuracy of data is verified by reconciling selected data submitted "downwards" to source documents. This part of verification involves the process of agreeing the volume, value and other key information fields within the sales data and cost data down to source documents. 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 accuracy of the export and domestic sales listings submitted in the REQ by reconciling these to audited financial statements in accordance with ADN. No 2016/30.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 1.

4.2 Sales Accuracy Finding

The verification team are satisfied that the sales data provided in the exporter questionnaire responses by ABB CQ and ABB ZS 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 the cost to make and sell (CTMS) information provided in the REQs by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

5.2 Completeness and Relevance Finding of CTMS data

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 1.

5.3 Completeness and Relevance Finding of CTMS data

The verification team are satisfied that the cost to make and sell data provided in the exporter questionnaire responses by ABB CQ and ABB ZS is complete and relevant.

5.4 Verification of CTMS Allocation Methodology

The verification team verified the reasonableness of the methodology used to allocate the CTMS information provided in the REQ to the relevant models, in accordance with ADN No. 2016/30.

Cost Area	Methodology Applied	Evidence Relied On
Raw Materials	Actual direct cost incurred by each project	SAP system and source documents including invoices and purchase orders
Manufacturing Overheads	Actual costs or costs allocated by labour hours	SAP system and source documents including invoices and purchase orders
Labour	Actual working hours by the planned hourly rate	SAP system

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

5.5 Verification of CTMS Methodology Finding

The verification team are satisfied that the allocation methodology for the cost to make and sell (CTMS) data provided in the exporter questionnaire responses by ABB CQ and ABB ZS is reasonable.

5.6 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.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at Confidential Attachment 1.

5.7 Accuracy Finding of CTMS data

The verification team are satisfied that the cost to make and sell (CTMS) data provided in the exporter questionnaire response by ABB CQ and ABB ZS, including any required amendments as outlined as an exception above, is accurate.

6 EXPORT PRICE

6.1 The importers

ABB CQ

In relation to the goods exported by ABB CQ to Australia, the verification team considers that the customers listed for each shipment were the beneficial owners of the goods at the time of importation, and therefore were the importers of the goods.

ABB ZS

In relation to the goods exported by ABB ZS the verification team considers that the customers listed for each shipment were not the beneficial owners of the goods at the time of importation, and therefore were not the importers of the goods.

This finding was made as a result of ABB ZS selling the goods at ex-works terms to a trading company who then on sold the goods to an Australian customer.

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 were satisfied that for ABB CQ's Australian export sales during the period the verification team considers ABB CQ to be the exporter of the goods, and for ABB ZS's Australian export sales ABB ZS to be the exporter of the goods.

6.3 Arms length

In respect of Australian sales of the goods by ABB CQ and ABB ZS 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.⁴

The verification team therefore considers that all export sales to Australia made by ABB CQ and ABB ZS during the period were arms length transactions.

⁴ Section 269TAA of the Act refers.

6.4 Export Price – assessment

ABB CQ

In respect of Australian sales of the goods by ABB CQ, the verification team recommends that the export price be determined under paragraph 269TAB(1)(a), as the price paid by the importer to the exporter less transport and other costs arising after exportation.

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

ABB ZS

In respect of Australian sales of the goods by ABB ZS, 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 ABB ZS sells the goods at ex-works terms to an unrelated trader who then on sells the goods to an Australian customer. The verification team recommends the export price be determined as the price paid to ABB ZS by the unrelated trading company.

The verification team's preliminary export price calculations are at **Confidential Appendix 6**.

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 ABB CQ and ABB ZS to their customers during the review 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 not 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 ABB CQ and ABB ZS to domestic customers during the period were arm's length transactions.

7.2 Ordinary course of trade

Section 269TAAD 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 quarterly domestic 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 review period. Those sales found to be unrecoverable were considered not to be in the ordinary course of trade.

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 purpose of determining a price under section(1).

As power transformers produced by ABB CQ and ABB ZS are individually designed and engineered to meet the customer's specifications, the verification team considers that each power transformer design constitutes a unique model, and that model matching between Australian and domestic models to determine a normal value under subsection 269TAC(1) is not possible when power transformer designs differ substantially from project to project. As a result, in line with subsection 269TAC(2)(a)(i), there is an absence of *relevant* sales of like goods on the domestic market in China for the purposes of calculating the normal value under subsection 269TAC(1).

Therefore normal values in this circumstance have been constructed under subsection 269TAC(2)(c), using the costs to make the goods that were exported to Australia, plus SG&A costs applicable to the goods sold domestically, and an additional amount for profit.

7.4 Profit

Where the Commission is required to calculate a normal value under section 269TAC(2)(c), an amount of profit must be determined. The verification team has calculated an amount of profit separately for ABB CQ and ABB ZS in accordance with section 45(2) of the Regulation, based on the production and sale of like goods by each entity on the domestic market in the ordinary course of trade.

PUBLIC RECORD

8 ADJUSTMENTS

8.1 Rationale and Methodology

ABB CQ

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).

Adjustment Type	Rationale for Adjustment	Calculation Methodology	Evidence	Claimed in REQ?
Domestic credit terms	Downwards adjustment to the normal value for domestic credit to ensure a fair comparison to the FOB export price.	Based on interest rate and actual contract terms for each domestic sale. Credit cost work sheet calculates a dollar amount for each project. Weighted average percentage derived and applied against invoice price.	Credit cost worksheet reconciled to domestic sales documents verified.	Y
Domestic commissions	No adjustment made. Domestic sales commissions were listed as direct selling expenses. Furthermore, as the normal value has been constructed using the export CTM and indirect SG&A expenses, direct selling expenses were not included and therefore no adjustment was required for domestic sales commissions for fair comparison of the normal value to the export price at FOB terms.	N/A	Source documents provided in domestic sales verification	Y
Export inland transport and handling	An upwards adjustment to the normal value for inland transport and handling to ensure a fair comparison to the FOB export price.	Based on the weighted average cost per unit for those expenses incurred over the investigation period.	Source documents provided in downwards verification of export sales.	Y
Export credit terms	An upwards adjustment to the normal value for export credit terms to ensure a fair comparison to the FOB export price.	Based on interest rate and actual contract terms for each export sale.	Credit cost worksheet reconciled to export sales sample documents.	Y

PUBLIC RECORD

ABB ZS

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

Adjustment Type	Rationale for Adjustment	Calculation Method	Evidence	Claimed in REQ?
Domestic credit terms	Downwards adjustment to the normal value for domestic credit to ensure a fair comparison to the EXW export price.	Based on interest rate and actual contract terms for each domestic sale. Credit cost work sheet calculates a dollar amount for each project. Weighted average percentage derived and applied against invoice price.	Credit cost worksheet reconciled to domestic sales sample documents	Y
Domestic commissions	No adjustment made. Domestic sales commissions were listed as direct selling expenses. Furthermore, as the normal value has been constructed using the export CTM and indirect SG&A expenses, direct selling expenses were not included and therefore no adjustment was required for domestic sales commissions for fair comparison of the normal value to the export price at EXW terms.	N/A	Source documents provided in domestic sales verification	Y

PUBLIC RECORD

8.2 Adjustments

ABB CQ

Adjustment Type	Deduction/addition
Domestic credit	Deduct the cost of domestic credit
Export inland transport and handling	Add the cost of export inland transport and handling
Export credit	Add the cost of export credit

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

ABB ZS

Adjustment Type	Deduction/addition
Domestic credit	Deduct the cost of domestic credit

The verification team’s preliminary adjustment calculations for ABB ZS are included in the normal value calculations at **Confidential Appendix 9**.

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 purpose 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 for both ABB CQ and ABB ZS under subsection 269TAC(2)(c), as:

- the respective cost to make of the goods exported to Australia in accordance with section 43(2) of the Regulation;
- the respective SG&A in accordance with section 44(2) of the Regulation, having regard to SG&A as a proportion of revenue of domestic sales of like goods, and applying this proportion to the export sales 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 respective production and sale of like goods in the OCOT.

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

The verification team's preliminary normal value calculations for ABB ZS are at **Confidential Appendix 9**.

10 DUMPING MARGIN

The dumping margin has been assessed by comparing weighted average Australian export prices to the corresponding quarterly weighted average normal value for the investigation period, in accordance with paragraph 269TACB(2)(a) of the Act.

The dumping margin in respect of the goods exported to Australia by ABB CQ for the period is **negative 4.6 per cent**.

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

The dumping margin in respect of the goods exported to Australia by ABB ZS for the period is **negative 1.0 per cent**.

Details of the preliminary dumping margin calculation are at **Confidential Appendix 10**.

11 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Export price - ABB CQ
Confidential Appendix 2	Cost to make and sell – ABB CQ
Confidential Appendix 3	Domestic sales, OCOT and profitability – ABB CQ
Confidential Appendix 4	Normal Value – ABB CQ
Confidential Appendix 5	Dumping Margin – ABB CQ
Confidential Appendix 6	Export price – ABB ZS
Confidential Appendix 7	Cost to make and sell – ABB ZS
Confidential Appendix 8	Domestic sales, OCOT and profitability – ABB ZS
Confidential Appendix 9	Normal Value – ABB ZS
Confidential Appendix 10	Dumping Margin – ABB ZS
Confidential Attachment 1	Verification work program