



Australian Government
**Department of Industry,
Innovation and Science**

**Anti-Dumping
Commission**

INVESTIGATION 507

**ALLEGED DUMPING OF POWER TRANSFORMERS
EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA**

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

CONTENTS..... 2

1 BACKGROUND..... 3

2 THE GOODS..... 4

2.1 THE GOODS4

2.2 TARIFF CLASSIFICATION4

3 THE AUSTRALIAN INDUSTRY 5

3.1 MANUFACTURING IN AUSTRALIA.....5

3.2 LIKE GOODS6

3.3 CONCLUSION7

4 AUSTRALIAN MARKET 8

4.1 BACKGROUND8

4.2 MARKET STRUCTURE.....8

4.3 MARKETING AND DISTRIBUTION9

4.4 DEMAND.....9

4.5 MARKET SIZE.....10

5 VERIFICATION OF SALES 12

5.1 VERIFICATION OF SALES DATA TO AUDITED FINANCIAL STATEMENTS.....12

5.2 VERIFICATION OF SALES DATA TO SOURCE DOCUMENTS.....12

5.3 RELATED PARTY CUSTOMERS12

5.4 IMPORTS BY APPLICANT12

5.5 EXPORT SALES12

5.6 SALES – CONCLUSION.....13

6 VERIFICATION OF COST TO MAKE AND SELL..... 14

6.1 VERIFICATION OF COSTS TO AUDITED FINANCIAL STATEMENTS14

6.2 VERIFICATION OF COSTS TO SOURCE DOCUMENTS14

6.3 COSTS TO MAKE AND SELL – CONCLUSION14

7 ECONOMIC CONDITION..... 15

7.1 APPLICANT’S INJURY CLAIMS.....15

7.2 COMMENCEMENT OF INJURY, AND ANALYSIS PERIOD.....15

7.3 APPROACH TO INJURY ANALYSIS15

7.4 VOLUME EFFECTS.....16

7.5 PRICE EFFECTS18

7.6 PROFITS AND PROFITABILITY19

7.7 OTHER ECONOMIC FACTORS.....20

7.8 CONCLUSION23

8 CAUSAL LINK 24

8.1 VOLUME EFFECTS.....24

8.2 PRICE EFFECTS24

8.3 PROFITS AND PROFITABILITY25

8.4 FACTORS OTHER THAN DUMPING25

9 UNSUPPRESSED SELLING PRICE 26

10 APPENDICES AND ATTACHMENTS..... 27

1 BACKGROUND

On 18 March 2019, the Anti-Dumping Commissioner (the Commissioner) initiated an investigation into the alleged dumping of power transformers exported to Australia from the People's Republic of China (China). Public notification of the initiation of the investigation was published on the Commission's website. The background relating to the initiation of this investigation is contained in Consideration Report 507 (CON 507) and Anti-Dumping Notice (ADN) No. 2019/35.

The application was lodged by Wilson Transformer Company Pty Ltd (WTC) requesting that the Minister for Industry, Science and Technology (the Minister) publish a dumping duty notice in respect of power transformers exported from China.

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 subsection 269T(1) of the Act¹ 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.

¹ References to any section or subsection in this report relate to provisions of the *Customs Act 1901*, unless specifically stated otherwise.

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 consideration²;
- 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 Australia³; and
- there is an Australian industry in respect of those like goods, consisting primarily of WTC.⁴

² Subsection 269T(1).

³ Subsection 269T(2).

⁴ Subsection 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 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. The Commission has therefore, for the purposes of this report, and in the absence of capacity data, considered market size in terms of both the number of units sold and the total sales value of those units.

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

- WTC's verified sales data;
- 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 tariff classifications identified by WTC 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. Some exporters included in 'all other exporters' are currently subject to measures.

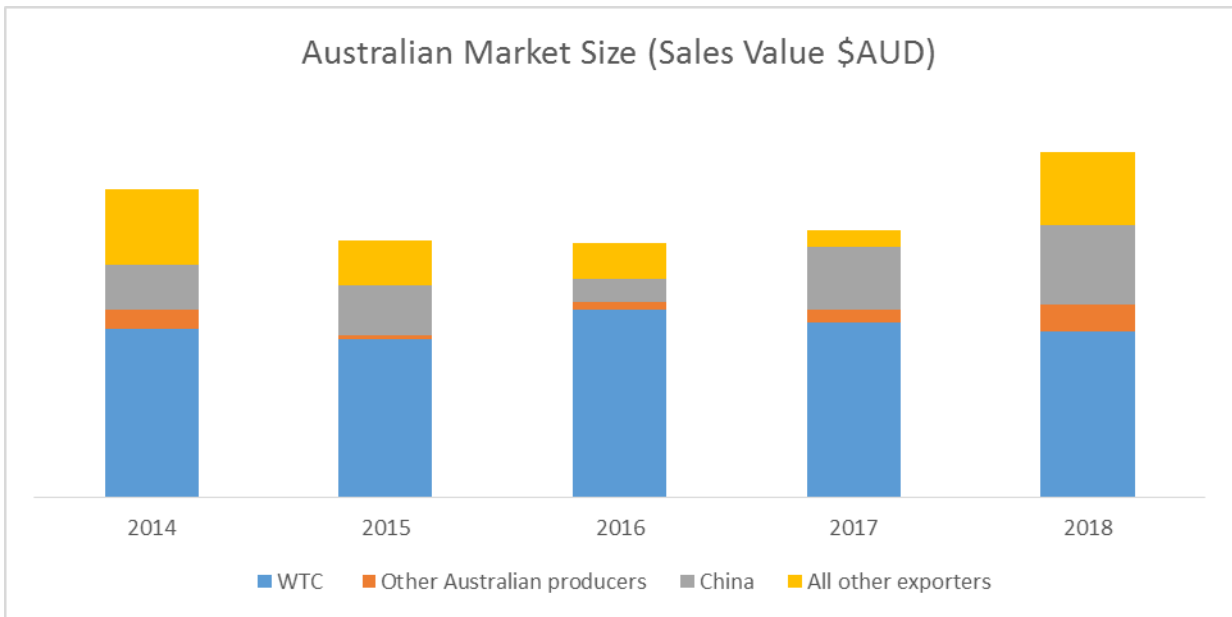


Figure 1 – The Australian market for power transformers (by sales value)

The verification team notes that while other domestic suppliers have gained some market share in terms of units during the period, in terms of the sales value of those units the increase is more subdued.

The estimated size of the Australian market in terms of the number of power transformers sold is illustrated in the figure below. Some exporters included in ‘all other exporters’ are currently subject to measures.

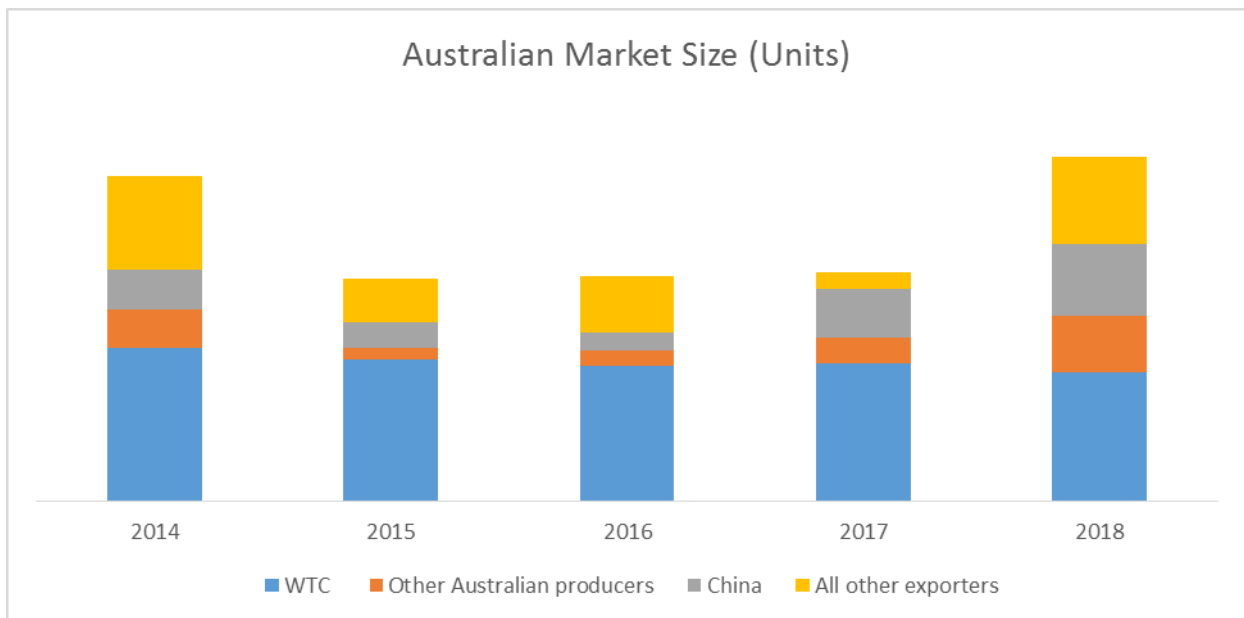


Figure 2 – The Australian market for power transformers (by number of units sold)

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 investigation 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 investigation period.

5.5 Export sales

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

PUBLIC RECORD

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 reasonably 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 reasonably 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

WTC claims that the Australian industry has been injured through:

- 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 injury, and analysis period

In its application WTC claims that material injury arising from price effects of the allegedly dumped goods from China commenced in FY 2012/13 and that material injury arising from volume effects of the allegedly dumped goods commenced in FY 2013-14. WTC states that the reason price effects predate the volume effects is due to long lead times between tender submission to the customer and the final delivery date of the product, which may be up to a year.

The injury analysis period is from 1 January 2014, with an investigation period of 1 January 2016 to 31 December 2018.

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:

PUBLIC RECORD

- volumes by unit and value during the investigation 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 its application WTC identified some tenders from 1 July 2016 it believes were lost to allegedly dumped imports of power transformers from China. WTC provided a detailed analysis of these lost tenders, including:

- the tender price offered by WTC;
- WTC's estimated costs of manufacture and sale in relation to the tender;
- WTC's market intelligence concerning the manufacturer winning the tender; and
- WTC's estimate of the winning tender price based on market knowledge or through communications with the tendering entity.

In order to understand the extent of WTC's participation in the Australian market during the investigation period, the verification team requested a full listing of all tenders that WTC participated in during the investigation 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 investigation 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.

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.

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 investigation period. The verification team analysed these by project and by the number of transformers in total (some projects require multiple power transformers).

PUBLIC RECORD

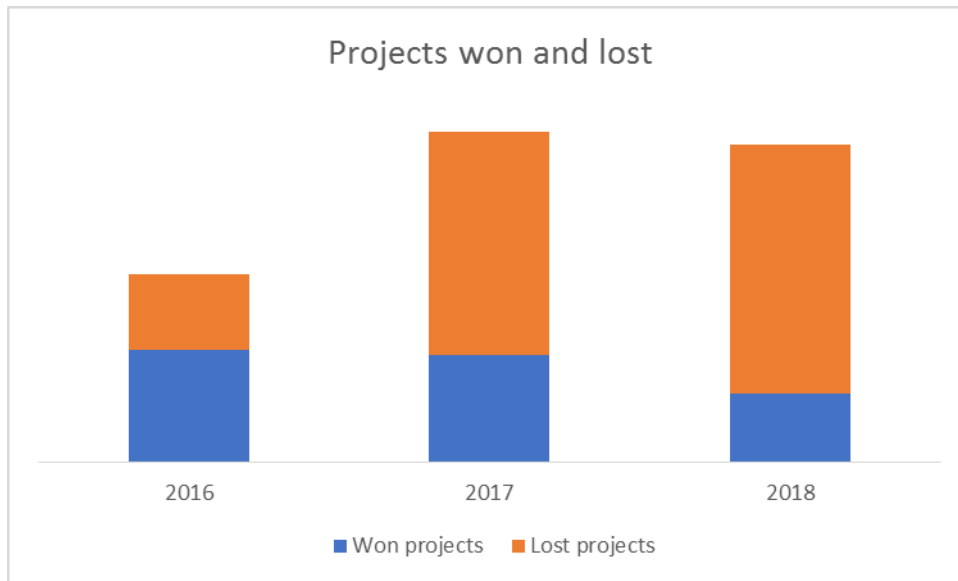


Figure 3: Outcome of WTC's bids (by project)

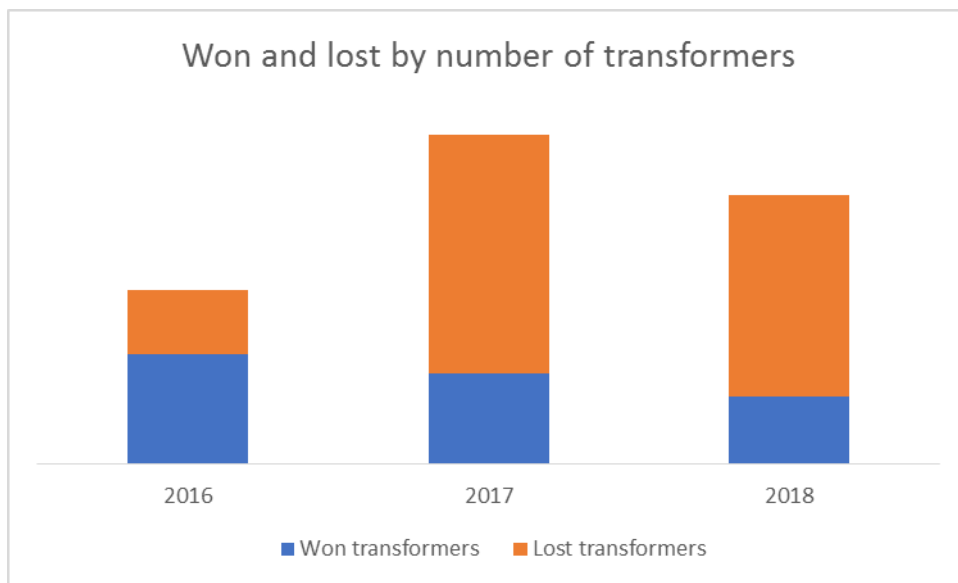


Figure 4: Outcome of WTC's bids (by number of power transformers)

During the course of the investigation 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**.

Sales

In the application, WTC claims that the market share of Chinese exporters 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 investigation 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.

7.5 Price effects

WTC provided sales and cost to make and sell (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

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:

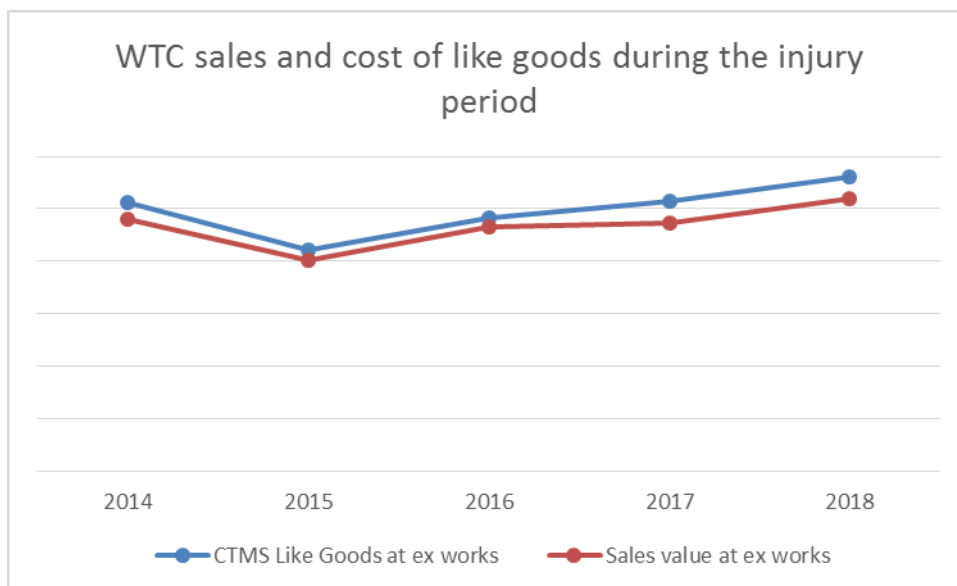


Figure 5: CTMS and sales revenue

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

7.5.2 Price Depression

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 investigation 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 investigation period (figures 3 and 4 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.

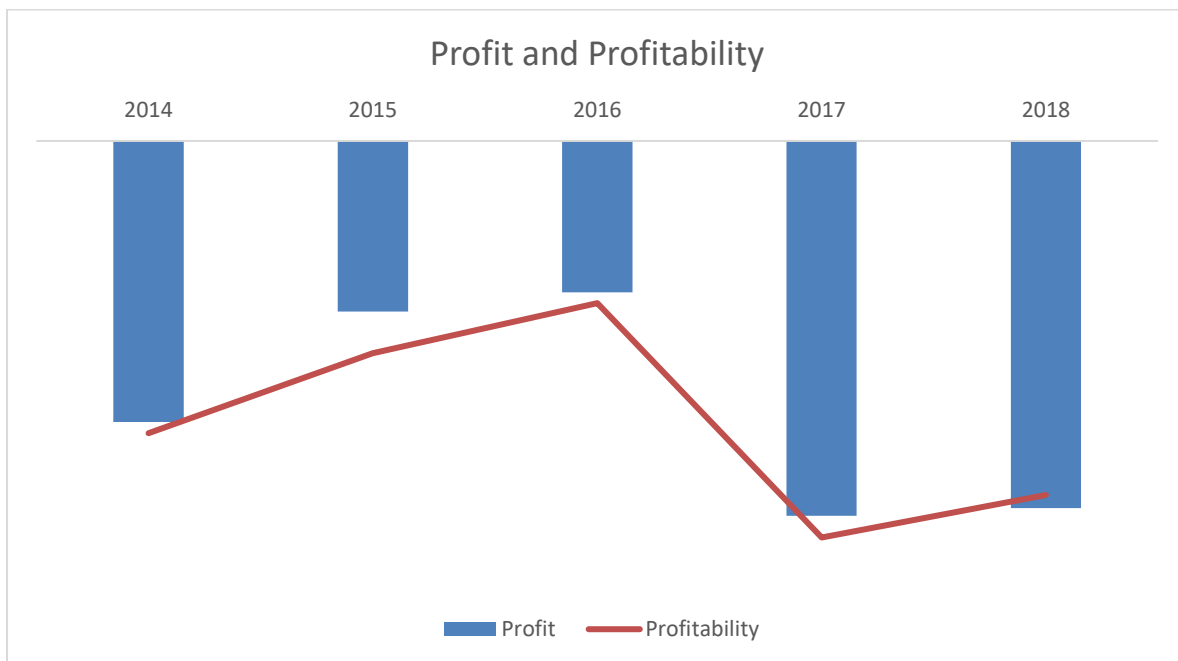


Figure 6: WTC's Australian profit and profitability of the goods

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 deteriorated between 2015 and 2016 and again between 2017 and 2018 and has not recovered to pre-2015 levels. The verification team is satisfied that there are reasonable grounds to support this claim.

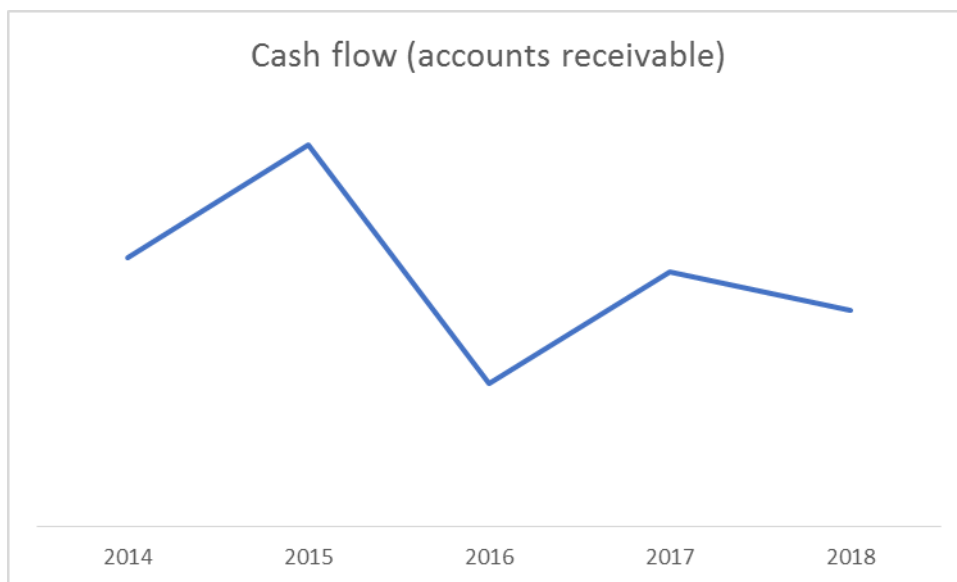


Figure 7: WTC's Cash flow

7.7.2 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 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 in 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 is reasonable grounds to support the claim of injury in the form of reduced capacity utilisation.

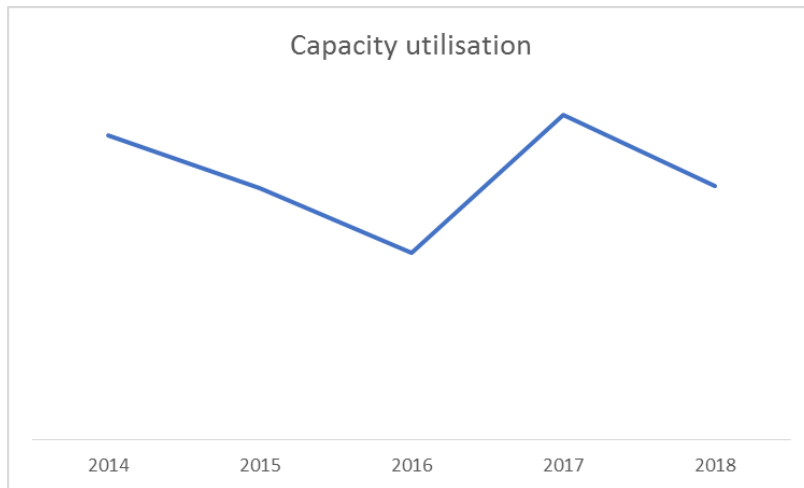


Figure 8: WTC's Capacity utilisation

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.

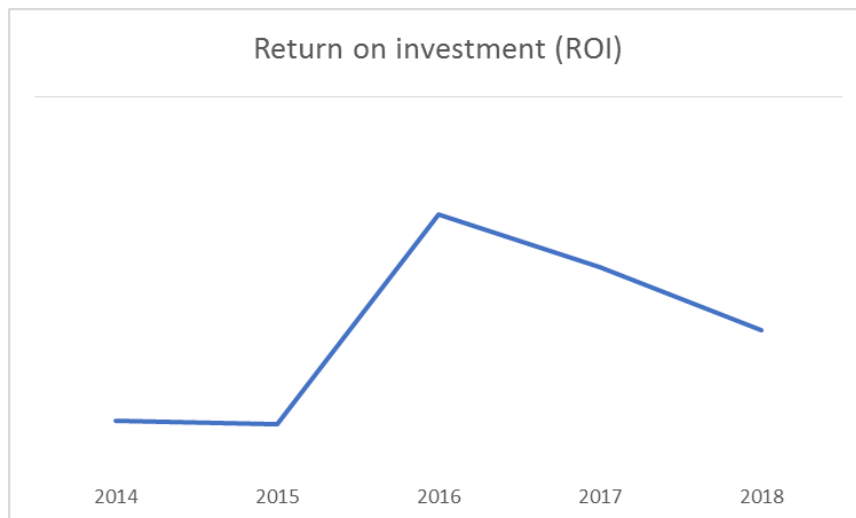


Figure 9: WTC's return on investment

7.7.4 Productivity

Productivity has declined 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.

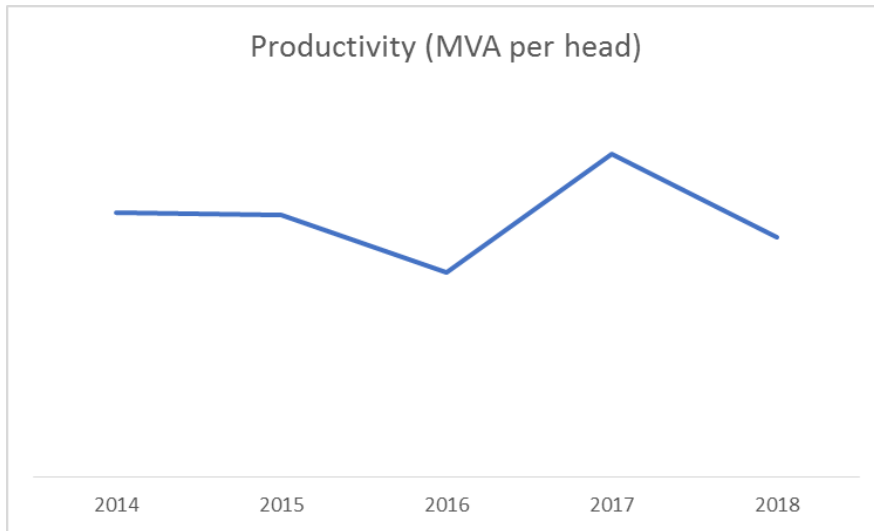


Figure 10: WTC's productivity

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.

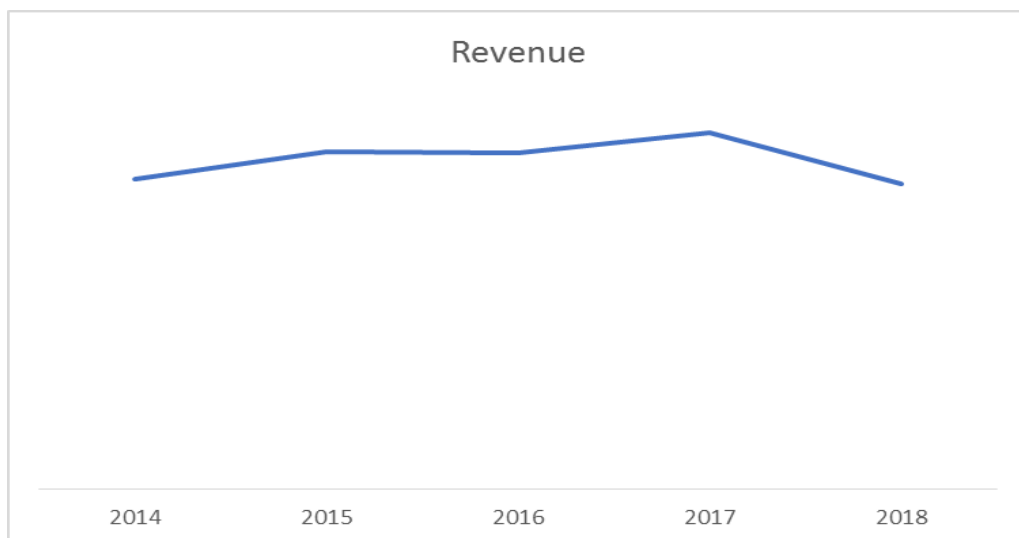


Figure 11: Revenue

7.7.6 Other indicators

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

R&D Expense – While WTC has experienced a decline in R&D expense during the investigation 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 CAUSAL LINK

The verification team gathered evidence to assess the claims made by WTC that there is a causal link between the injury it has experienced and alleged dumping of power transformers from China during the investigation period.

The verification team also gathered evidence regarding other factors that may be causing injury, such as non-price related factors in the assessment of tenders.

The Commission will use the evidence gathered by the verification team to form a view regarding the cause of injury in the statement of essential facts.

8.1 Volume effects

Figures 1,2,3 and 4 above outline the volume related injury that WTC has experienced in the verification team's analysis of sales value, sales volume 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 China as it is unable to compete with dumped imports on price.

The Commission has requested further information from end users (the tenderers) in order to ascertain the importance of price in their purchasing decisions. The Commission will also analyse alternate bids made by importers of the allegedly dumped transformers. It will review information from various parties to ascertain if other factors may have impacted WTC's ability to successfully bid for tenders.

8.2 Price effects

8.2.1 Analysis of tender related correspondence

The verification team has been supplied with correspondence from customers providing feedback concerning lost tenders. Among other factors, customers have stated that WTC's bid was priced higher than one of its competitors sourcing transformers from China during the investigation period. WTC has reduced pricing, in some cases, several times before a tender is won or lost. The verification team will review the reasons behind the reductions in prices to ascertain if these were a result of price pressure in order to meet an allegedly dumped price or in response to a change to specifications during the course of the negotiations. In one of the sample tenders for which the team requested all documentation, it is clear that WTC reduced its bid price in response to intelligence of a competitor bid. It is not immediately apparent which competitor it is or the source of its supply. During the course of the investigation the Commission has gathered further information concerning competitor bids for tenders as well as the significance of price to tender evaluations.

8.3 Profits and profitability

WTC has experienced injury in the form of reduced profits and profitability during the investigation period (figure 6 refers). WTC has seen a continued trend of CTMS above sales revenue. Further analysis of tender negotiations will assist the Commission to assess if the depressed sale prices are in an attempt to compete with dumped prices.

8.4 Factors other than dumping

8.4.1 Size of power transformers

During the visit the verification team discussed WTC's ability to produce larger power transformers. Between 2009 and 2012 WTC undertook a major upgrade of its Glen Waverley power transformer plant to increase throughput capacity, increase product range and enhance test capability. WTC advised that it is capable of producing power transformers with a voltage rating of less than 500kV. In Australia this equates to transformers of 330kV and below. WTC did concede that as it has not won many tenders for the production of 275kV and 330kV transformers although the transformers it has supplied in these voltage classes in Australia and overseas since the 1980s are all operating well. WTC does have a large portfolio of references for power transformers 220kV and below. In response to the verification team's request WTC has furnished the verification team with the number of power transformer tenders it has lost that are of a larger size. The verification team observes that transformers above 180MVA form only a small proportion of all bids submitted by WTC during the investigation period, which is reflective of the market. WTC also provided the verification team with details of larger power transformers it has supplied and has on order.

9 UNSUPPRESSED SELLING PRICE

Unsuppressed selling price (USP) and non-injurious price (NIP) issues are examined at an early stage of an investigation. 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 investigation, 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