PUBLIC RECORD

Australian Government
Department of Industry, Science, Energy and Resources

Anti-Dumping Commission

Australian Industry Verification Report

Verification & Case Details

Initiation Date	13/07/2020	**ADN:**	2020/71
Case Number	557		
The goods under consideration	Certain copper tube		
Case type	Dumping and Subsidy Investigation		
Australian Industry	Metal Manufactures Pty Ltd (trading as MM Kembla)		
Investigation Period	1/07/2019 **to** 30/06/2020		

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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PREFACE

This report details the findings, analysis, evidence relied upon and reasoning on key verification outcomes of data submitted to the Anti-Dumping Commission (Commission) by the verification team for publication on the public record.

It provides interested parties with information regarding all material aspects of the verification, including explanations of any material issues identified during the verification. It outlines the nature, extent and consequences of any changes made to the data submitted, including data corrections made by the company or by the verification team.

Verification teams are authorised to conduct verifications under sections 269SMG and 269SMR of the *Customs Act 1901* (the Act).[1]

[1] Reference to any sections in this report relate to provisions of the *Customs Act 1901*, unless specifically stated otherwise.

1 COMPANY BACKGROUND

1.1 Corporate structure and ownership

Metal Manufactures Pty Limited (MM Kembla) is a private company incorporated in 1989. The trading name of the division manufacturing the goods is MM Kembla. MM Kembla was founded in 1916 to convert Australia's rich copper resources to finished copper products and reduce the reliance on off-shore production. The company is owned by MML Holdings Limited whose ultimate parent entity is Blackfriars Corp, domiciled in USA. MM Kembla is situated in Port Kembla NSW and has distribution centres across all states of Australia (except NT) as well as an international distribution network in Asia, New Zealand and the Middle East.

MM Kembla manufactures and distributes copper tube (the goods) such as plumbing tube, refrigeration tube, lagged tube, medical gas tube as well as goods which are not the subject of this investigation such as pair coil and insulation tube.

1.2 Related parties

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

The verification team found that MM Kembla did not have any related party suppliers during the investigation period.

1.2.1 Related customers

The verification team found that MM Kembla did have a related party customer to which the goods are sold, however, the volumes were insignificant, being less than 0.02 per cent of MM Kembla's total sales volume during the investigation period (the period from 1 July 2019 to 30 June 2020). These sales were immaterial to the assessment of selling prices.

2 THE AUSTRALIAN INDUSTRY MANUFACTURING LIKE GOODS

2.1 Manufacturing in Australia

MM Kembla have been manufacturing at the Port Kembla facility since 1916 and maintain 7 distribution centres across Australia. The Commission understands that MM Kembla are the only manufacturer of like goods remaining in Australia following the closure of Crane Enfield Metals Pty Limited in 2015.

MM Kembla produce a range of copper products including copper tube in straights and coils, fittings and accessories. MM Kembla produce seamless copper tube having the following characteristics:

- conformance to Australian standards AS 1432, AS 1572 or AS/NZS 1571;
- of varying nominal diameters between 9.52 mm and 53.98 mm and of nominal thicknesses between 0.71 mm and 1.83 mm;
- lengths of 1.5m, 3m and 6m;
- bare or coated or “lagged” (to provide insulation);
- capped or uncapped (sealing generally required to maintain internal cleanliness); and
- safe working pressure.

Products can be physically identified by the following:

- Plumbing tube – bare uncoated seamless round copper tube; open ended (uncapped); permanently incised with standard and watermark licence; and ink marked in accordance with AS 1432 standard;
- Lagged tube – typically PVC or LDPE coated seamless round copper tube; open ended (uncapped); ink marked in accordance with AS 1432 standard; coated typically with green, lilac, brown or white coating; and
- Refrigeration & medical gas tube - bare uncoated seamless round copper tube; sealed ends (capped) to maintain internal cleanliness; ink marked in accordance with AS/NZS 1571 standard; capped typically with pink or red (high pressure), green or black (low pressure) and yellow (specific use or medical gas) rubber or plastic caps.

MM Kembla also produces a small amount of copper tube that conforms to AS 1572 – seamless tubes for engineering purposes. This product is typically straight length round seamless copper tube bare/uncoated and open ended (uncapped) with outside diameters between 9.52mm and 22.22mm.

2.1.1 Production process

The production process can be summarised as follows:

- **Raw Materials:** Copper tube is manufactured from raw material copper which is predominately newly refined copper, cathode copper and copper scrap.

- **Production Stage 1 - *Melting***: The raw material copper is melted in a furnace, impurities removed, and ready for casting.
- **Production Stage 2 – *Casting*:** Molten metal is transferred from the furnace where it is cast into large "logs" by a continuous casting method.
- **Production Stage 3 – *Extrusion*:** The next step is to cut these logs into shorter lengths called billets. The billets are then reheated and extruded, creating a long hollow tube.
- **Production Stage 4 – *Annealing, straightening and cutting***: Copper tube is sold in either hard (i.e. as hard drawn), half hard or in a soft, annealed state.
- **Production Stage 5 – *Further processing (dependent on end use)*:** Depending on the intended end use, the tube can be put through a cleaning process, plastic coating (lagging) operation, or have end caps applied.
- **Scrap:** scrap is produced at various stages of the production process and is remelted in the billet caster for use in downstream production.
- **Packaging and despatch:**
  Products are packed to customer requirements and despatched through MM Kembla's distribution centres.

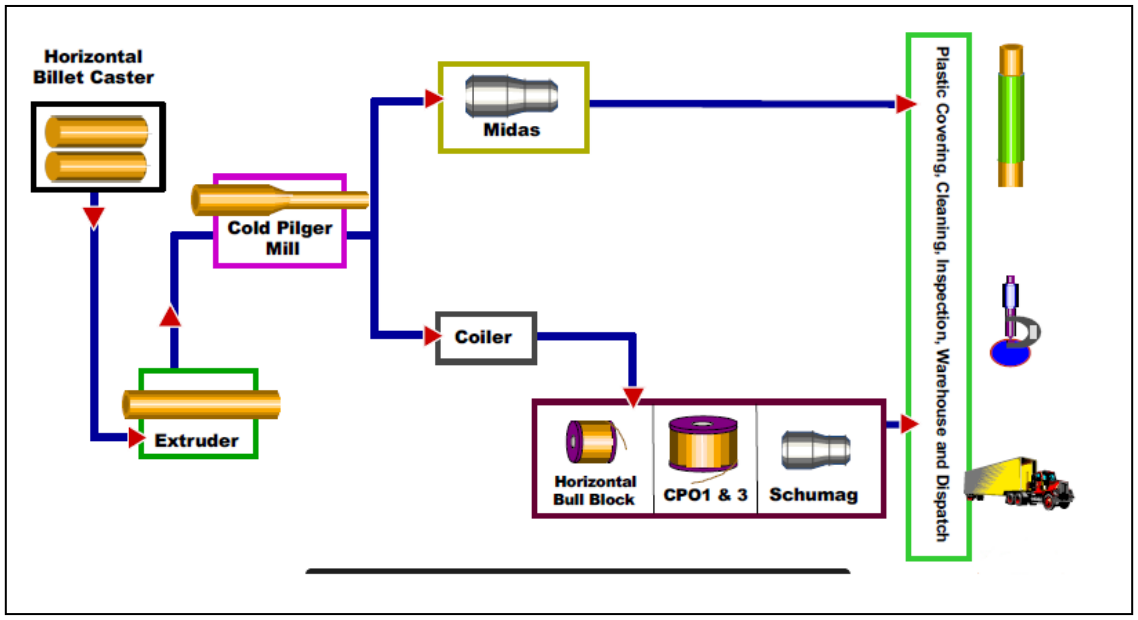

Figure 1 – MM Kembla – Manufacturing process

2.2 Verification of model control codes

MM Kembla cost and sales data was consistent with the proposed MCC structure outlined in the Commission's file note published on the electronic public record (EPR).[2] Table 1 below provides detail on the model control code (MCC) sub-categories that were determined and verified to source documents.

Category	Determination of the sub-category
Standard	Based on the standard and grade shown on the commercial invoices.
Temper	Based on the temper grade shown on the commercial invoices.
Lagging	Based on the product description shown on the commercial invoices.
Capping	Based on the product description shown on the commercial invoices and product brochure.
Form	Based on the product description shown on the commercial invoices.
Finned or internally grooved	Based on the product description shown on the commercial invoices.

Table 1 MCC sub-category determination

Table 2 below displays the relationship between product codes/standard/grade and MCC categories.

Standard	MCC standard category
AS1432	P (plumbing)
AS1571	R (refrigeration)
AS1572	E (engineering)

Table 2 MCC mapping

MM Kembla sold goods with the following MCCs during the investigation period:

- P-H-L-U-S-P
- P-H-U-U-S-P
- P-B-L-U-S-P
- P-B-U-U-S-P
- R-H-U-C-S-P
- R-B-U-C-S-P
- R-B-U-U-S-P
- E-H-U-U-S-P
- E-B-U-U-S-P

[2] Investigation 557, EPR Item 6, File Note 'MCC, PIRs and selected exporters', published 7 September 2020.

2.3 Like goods

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

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

For the purpose of assessing the goods manufactured and sold by MM Kembla in the Australian market, the verification team had regard to MM Kembla's own production and sales information and other information available from interested parties. This established that goods manufactured by MM Kembla were produced to the same specification as the goods under consideration, with MM Kembla competing directly with the imported goods in the same market segments.

The verification team considers that copper tube manufactured by MM Kembla are identical to, or have characteristics closely resembling, the goods exported to Australia, as:

- **Physical likeness** – the physical characteristics of the locally produced and imported seamless copper tube are similar, being of similar shape and dimension, namely round seamless copper tube with an outside nominal diameter between 9.52 mm and 53.98 mm, and a nominal wall thickness between 0.71 mm and 1.83 mm.
- **Commercial likeness** – the locally produced and imported goods are commercially alike, as they are produced to the same standards for use in the same applications, and sold to common customers within the same market sector;
- **Functional likeness** – the locally produced and imported goods are functionally alike as they perform the same function and are used in the same applications (and are interchangeable);
- **Production likeness** – the locally produced and imported goods are manufactured in a similar manner, involving similar manufacturing processes and finish treatment (i.e. annealing) to the applicable Australian standards.

2.4 Preliminary like goods assessment

The verification team is satisfied that:

- certain copper tube manufactured by MM Kembla are like to the goods;[3]
- the substantial process of manufacturing the copper tube is carried out in Australia;[4]
- the like goods were, therefore, wholly manufactured in Australia by MM Kembla;[5] and

[3] Section 269T(1).
[4] Section 269T(3).
[5] Section 269T(2).

- there is an Australian industry, consisting of MM Kembla, which produce like goods in Australia.[6]

[6] Section 269T(4).

3 AUSTRALIAN MARKET

3.1 Background

MM Kembla is the sole manufacturer of the goods in Australia, following the closure of Crane Enfield Metals Pty Limited in 2015.

In addition to the goods manufactured by MM Kembla, the Australian market was also supplied by imports, predominantly from the Republic of Korea (Korea) and the People's Republic of China (China) in the relevant period. MM Kembla also imports a small volume of the goods.

MM Kembla described that Korea has been a provider of copper tube to the Australian market for 15-20 years, China has become a growing presence in the Australian market in recent years, while the Socialist Republic of Vietnam (Vietnam) is considered as an emerging supplier.

Additionally, it was described that China, Korea and Vietnam are currently the only established production hubs within a close enough proximity for supply. MM Kembla considers that other options such as Europe, America and South America that have established production facilities are not viable due to sea freight lead times and corresponding costs for high cost products like copper tube.

Having regard to the Australian Border Force (ABF) import data and other information available, the verification team was satisfied that imports from all countries besides China and Korea accounted for an immaterial volume of goods in the investigation period.

Copper tube is considered to be a commodity product. It is noted, however, that copper tube must conform to relevant Australian standards and as such changeability of supplier will be contingent upon conformance to those standards.

3.2 Market structure

3.2.1 Market segmentation and end uses

The Australian market for seamless copper tube involves end-use applications relating to the movement of water, gas or refrigerant in heating, ventilation and air conditioning (HVAC) piping systems. End use applications include the following:

- plumbing;
- refrigeration piping;
- HVAC piping;
- mechanical gas tubing;
- medical gas tubing; and
- water and gas infrastructure.

In terms of practical application, copper tube is used in the following areas:

- commercial construction (large apartments, new shopping centres);

- residential construction (new houses);
- refrigeration and air conditioning installation (supermarkets, hospitals, fruit and vegetable distributors, meat processing);
- medical gases (hospital); and
- plumbing/gas fitting (replacement and new installations market for residential houses and commercial businesses).

Copper tube can be broadly segmented into the following product categories:

- plumbing tube – for the reticulation of water & gas;
- refrigeration tube – for HVAC and Refrigeration systems;
- medical Gas tube – For the supply of medical gases;
- lagged tube – PVC coated tube used for in-ground and corrosive environments; and
- insulated tube – mostly pair coil used in air conditioning installations.

Plumbing tube must be manufactured to be compliant with Australian Standard AS1432 and must be independently Watermark certified as part of the Watermark Certification Scheme administered by the Australian Building Codes Board (ABCB).

Refrigeration tube must be manufactured to be compliant with Australia / New Zealand Standard AS/NZS1571.

Medical gas copper tube manufactured to AS/NZS1571 must also conform to the requirements of the Medical Gas Systems installation standard AS2896 and have been designed to be suitable for the transmission of medical gases such as oxygen, as well as vacuum or suction line applications.

3.2.1 Marketing and distribution

The majority of copper tube is distributed and marketed in Australia through plumbing, HVAC and refrigeration and hardware merchants.

For plumbing tube, sales are predominantly through specialist plumbing distributors and to a lesser extent through hardware stores. For refrigeration and medical gas tube, sales are predominantly through heating, ventilation, air conditioning and refrigeration distributors.

The larger plumbing merchants operating in the Australian market include TRADELINK, Reece Plumbing Group and Plumbing Plus Group.

End users such as plumbers, and refrigeration and air conditioning contractors purchase copper tube through these distributors.

3.2.2 Supply

MM Kembla manufactures the copper tube at its Port Kembla facility from where it is shipped to distribution centres in each capital city around the country. The branch warehouses in the capital cities are replenished regularly to ensure sufficient to stock is maintained to meet demand.

Customers are supplied from the distribution centres, and then on-sell the products to contractors and end users.

3.2.3 Demand

Demand drivers and subsequent demand variability of the copper tube market in Australia can be attributed to the following factors:

- copper as a raw material contributes to a proportionately large percentage of the price of copper tube and therefore fluctuations in the global copper price may affect demand;
- level of investment/activity in multi-residential and non-residential construction sectors such as accommodation, offices, education, health and aged care;
- system designation and operating parameters prescribed by designers or hydraulic and mechanical consultants;
- seasonal fluctuations predominantly across extended holiday periods where construction activity is lower and warmer seasons for domestic air conditioning copper tube;
- developments in alternative piping technologies, particularly in gas and hot water distribution and HVAC applications (PPR technology, Gas PEX systems) and large bore alternatives (Stainless Steel, PPR);
- advancements in Retail/Supermarket sector refrigeration systems requiring copper alloy piping; and
- improved connection technology and methods (Press Fittings, Push-Fittings) supporting growth in demand for copper tube.

3.3 Pricing

MM Kembla described that pricing is set on the basis of the London Metals Exchange (LME) price of copper plus a premium. The premium covers conversion cost and the margin. The margin may be influenced by factors such as a rebate structure, order quantity, sales support, geography due to free-into-store (FIS) terms, length of contract etc.

3.4 Market size

In Consideration Report No. 557 (CON 557), the Australian market size for the goods was estimated using the best available information at the time of initiation, consisting of sales data provided by MM Kembla for their Australian sales and ABF import data. Furthermore, the market size was assessed on a yearly basis for sales from April-March.[7]

As part of the Industry verification, MM Kembla provided sales data for an additional quarter, relevant to the investigation period. The verification team has assessed the

[7] EPR Item 2, CON 557.

sales data submitted by MM Kembla and considers it reasonable and reliable to be used in ascertaining the market size for the relevant period (Chapters 4 and 5 refer).

It is noted, however, that the Commission has also received information from other interested parties since initiation which may be relevant to the assessment of the market size for Investigation 557.[8] Given this, the verification team has not estimated the market size and has referred this assessment to the case management team, to be made available to interested parties in the Statement of Essential Facts (SEF).

[8] The Commission has received information from interested parties in the form of preliminary information requests, importer questionnaires and exporter questionnaires. Certain information remains unverified at the time of this report and is subject to change.

4 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 total sales value and quantity is reconciled to management reports with particular attention given to ensuring that all relevant transactions are included and irrelevant transactions are excluded. The total value from the management reports is then reconciled to the total revenue figure reported in the audited income statement.

The verification team verified the completeness and relevance of the Australian sales listings by reconciling these to audited financial statements in accordance with ADN No. 2016/30.

The verification team verified the relevance and completeness of the sales data as follows:

- MM Kembla's total sales revenue for the most recent accounting period was reconciled to the company's trial balance, management accounts, and upwards to MML Holdings Limited's consolidated financial statement;
- The verification team reconciled MM Kembla's total sales revenue for the investigation period to the company's management reports and trial balance for the relevant periods;
- The verification team reconciled the sales revenue for the general category of goods, having regard to MM Kembla's product codes and breakdown for domestic and export sales; and
- Because the goods description is narrower than the general category of goods (noting that the GUC relate only to certain sizes of tubes), MM Kembla segregated products according to whether they were:
    - Of specifications within the scope of the goods subject to the investigation (i.e. of sizes matching the GUC); and
    - Manufactured or purchased (some products matching GUC are imported for resale where it is not economically rational for them to manufacture these small quantities).

The verification team matched the classification of sales to data captured in MM Kembla's accounting system and reconciled these classifications for selected transactions.

The verification team did not outline any issues during this process. However, as MM Kembla had not provided sales data for the final quarter of the investigation period in its application, MM Kembla provided additional data during the verification, as outlined as an exception below.

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

4.1 Exceptions during verification of sales completeness and relevance

No.	Exception	Resolution
1	MM Kembla was requested to provide additional sales data to ensure that the A4 aligned with the investigation period relevant to the investigation, and to re-categorise the sales to align with the MCC structure proposed by the Commission in a file note published on 7 September 2020.	MM Kembla provided the additional quarter of sales data requested, and further mapped product codes to the revised MCC to allow the verification team to re-categorise the sales data according to the proposed MCC structure.

Table 3 Exceptions during verification of completeness and relevance of sales data

4.2 Import sales by applicant

MM Kembla distinguished between purchased goods (imported goods) and manufactured goods based on different product categories assigned in its accounting system.

The verification team tested these classifications for selected sample transactions and was satisfied that the sales had been correctly reported.

4.3 Export sales by applicant

MM Kembla distinguished between domestic and export sales based on classifications recorded in its accounting system.

The verification team tested these classifications for selected sample transactions and was satisfied that the sales had been correctly reported.

4.4 Sales completeness and relevance finding

The verification team is satisfied that the sales data provided in the application by the applicant, including any required amendments as outlined in the exception table above, is complete and relevant.

5 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 down to source documents. This verifies the accuracy of the data.

The verification team verified accuracy of the Australian sales listings submitted as part of the application by reconciling these 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**.

5.1 Related party customers

The verification team observed that MM Kembla sold goods to one related customer. The volume sold is insignificant at less than 0.02% of total domestic sales during the investigation period. A comparison of pricing between related and unrelated party sales showed no distinct difference between the sales. Given the small volume and no pattern in pricing, the verification team considered these sales to be immaterial. Further, as there was no evidence of price discrimination for sales to related customers, the verification team considered these sales to related customers to be arms length, and has included these sales in the assessment of the economic condition of the Australian industry.

5.2 Sales accuracy finding

The verification team is satisfied that the sales data provided in the application by MM Kembla is accurate. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

Accordingly, the verification team considers MM Kembla’s sales data suitable for analysing the economic performance of its operations concerning certain cooper tube in the relevant period.

6 VERIFICATION OF CTMS 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 total cost to make data is reconciled to the cost of production in the management reports with particular attention given to ensuring that all relevant costs are included and irrelevant costs have been excluded. The cost of production data is then reconciled, through relevant account ledgers, to the cost of goods sold figure reported in the audited income statement. Additionally, selling, general and administration (SG&A) expenses are reconciled to income statements, with particular attention given to specific expenses that were excluded or should be excluded.

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

The verification team verified the relevance and completeness of the cost data as follows:

- MM Kembla's cost of goods sold (COGS) for the investigation period and most recent accounting period were reconciled to the company's trial balance, management accounts, and upwards to MML Holdings Limited's consolidated financial statement for the most recent accounting period;
- The verification team found that COGS rather than CTMS was provided in the A6 worksheet. To determine the suitability of this dataset, the verification team reconciled the sales quantities to production quantities, having regard to production reports, copper inventory balances and copper inventory valuations. The verification team is satisfied that the A6 listing is relevant and complete in regards to the cost to make of the goods.
- The verification team verified the quarterly costs for the goods in the A6 spreadsheets, having regard to the monthly cost of sales by product category (subject goods and other products), and reconciling the amounts allocated to the relevant material, labour and overhead costs for the period;
- Based on the granularity of MM Kembla's cost accounting system, the verification team was able to filter the cost data, based on whether goods were purchased (imports) or manufactured and also based on the market (domestic or export).
- The verification team reconciled the components of the cost listing through the relevant accounts of MM Kembla's standard cost system, including variances, and is satisfied that the cost listing in the A6 worksheet represents actual costs.

The verification team verified the relevance and completeness of the SG&A data as follows:

- The verification team reconciled the SG&A expenses to profit and loss for the investigation period and ensured that the categorisation of expenses was correct.
- The verification team reviewed allocation of SG&A expenses between goods and non-goods and between exported goods and goods sold on the domestic

market, and found the allocation to be appropriate to the nature of the expenses.

The verification team did not encounter any issues during this process. However, as MM Kembla had not provided cost data for the final quarter of the investigation period in its application, MM Kembla provided additional data during the verification, as outlined as an exception below.

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

6.1 Exceptions during verification of completeness and relevance of CTMS data

No.	Exception	Resolution
1	MM Kembla was requested to provide additional cost data to ensure that the A6 data aligned with the investigation period, and further to re-categorise the cost items to align with the MCC structure proposed by the Commission in a file note published on 7 September 2020.	MM Kembla provided the additional quarter of cost data requested. However, due to old and new MCCs coinciding as outlined in section GP10, re-categorisation was not deemed necessary.

Table 4 Exceptions during verification of completeness and relevance of CTMS data

6.2 CTMS completeness and relevance finding

The verification team is satisfied that the CTMS data provided in the application by MM Kembla, including any required amendments as outlined in the exception table above, is complete and relevant.

7 VERIFICATION OF CTMS ACCURACY

7.1 Cost allocation method

The verification team verified the reasonableness of the method used to allocate the cost information, 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**.

Table 5 below outlines the allocation method applied to each cost item.

Cost item	Method applied
Raw Materials	Raw material costs are allocated to the finished copper tube based on sales quantity. The cost is allocated to the goods when the goods are sold. The copper inventory is revalued monthly.
Direct Labour and other variable manufacturing overheads	MM Kembla applies standard cost for cost category and cost centre. Actual costs are allocated by machine hours. Variances between actual and standard cost are captured by cost centre and posted monthly to profit and loss, as evidenced by production reports and accounting documents.
Depreciation and fixed overheads	Depreciation is allocated by machine hours. Other fixed overheads are allocated by product.
Freight	Freights costs are allocated on the basis of sales quantities.
Other SG&A expenses	Allocated by market (domestic or export) and sales quantity.

Table 5 Cost calculation method

7.2 Verification of accuracy of CTMS data

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 cost data down to source documents. This verifies the accuracy of the data.

The verification team verified the accuracy of the CTMS information 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**.

7.3 Related party suppliers

Based on the upwards and downwards verification of MM Kembla's cost to make and sell, the verification team did not identify any related party suppliers of the raw materials/services in relation to MM Kembla's production of the goods.

7.4 CTMS verification finding

The verification team is satisfied that the CTMS data provided in the application by applicant, is complete, relevant and accurate.

Accordingly, the verification team considers MM Kembla's CTMS data is suitable for analysing the economic performance of its copper tube operations from 1 July 2019 to 30 June 2020.

8 ECONOMIC CONDITION

8.1 Applicant's injury claims

In its application for a dumping and subsidy investigation, MM Kembla claimed that the Australian industry has experienced injury in the form of:

- loss of sales volume;
- reduced market share;
- price suppression;
- loss of profit;
- reduced profitability;
- reduced employment;
- reduced capacity utilisation;
- increased inventories; and
- reduced return on investment.

MM Kembla claimed that material injury from dumped and subsidised exports commenced in 2018.

8.2 Approach to injury analysis

The analysis detailed in this chapter is based on verified financial information and data provided by MM Kembla, including verified costs and sales information, other financial data, and other relevant information such as information provided in relation to price negotiations.

The verification team has assessed the economic condition of the Australian industry from 1 July 2016 using the information provided by MM Kembla in its application and updated data provided in the course of the industry verification. The figures presented have been compiled on an annual basis for years ending 30 June. This preliminary assessment is at **Confidential Appendix 1**.

8.3 Volume effects

8.3.1 Sales volume

Figure 2 below shows MM Kembla's sales volumes for its own production of copper tube in the Australian market since 1 July 2016, and its imports of the goods[9]:

[9] As detailed in section 4, MM Kembla imports a small volume of the goods for resale. These imports have been excluded from the verification team's injury analysis.

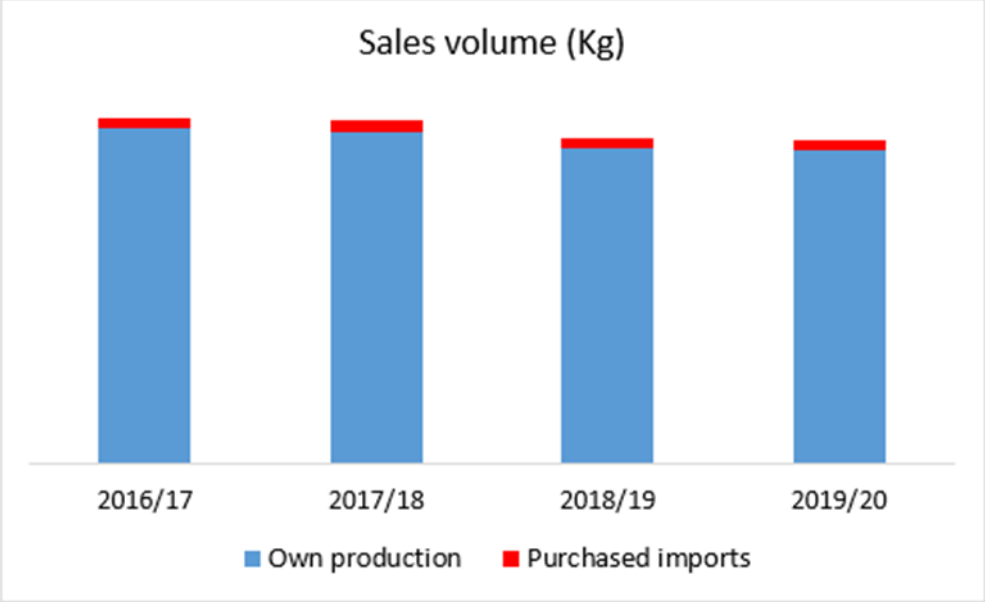

Figure 2 – Sales volume

As outlined above, MM Kembla's total sales volumes have declined year-on-year in the period examined, while the volume of imported goods remained steady.

Based on this analysis, the verification team considers that MM Kembla has experienced injury in the form of loss of sales volume during the investigation period.

8.3.2 Market share

The market size and market share was estimated in CON 557, using the best available information at the time of initiation.

As outlined at section 3.4 of this report, the Commission has received further information from interested parties since initiation, which may be relevant to the assessment of the market size, and likewise the assessment of the market share for the goods.

Given this, the verification team has not assessed MM Kembla's market share for the goods and has referred this assessment to the case management team, to be made available to interested parties in the SEF.

8.4 Price effects

Price depression occurs when a company, for some reason, lowers its prices. Price suppression occurs when price increases, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between prices and costs.

The verification team has examined MM Kembla's per unit selling prices and CTMS during the injury examination period. The verification team's findings are presented in Figure 3 below:

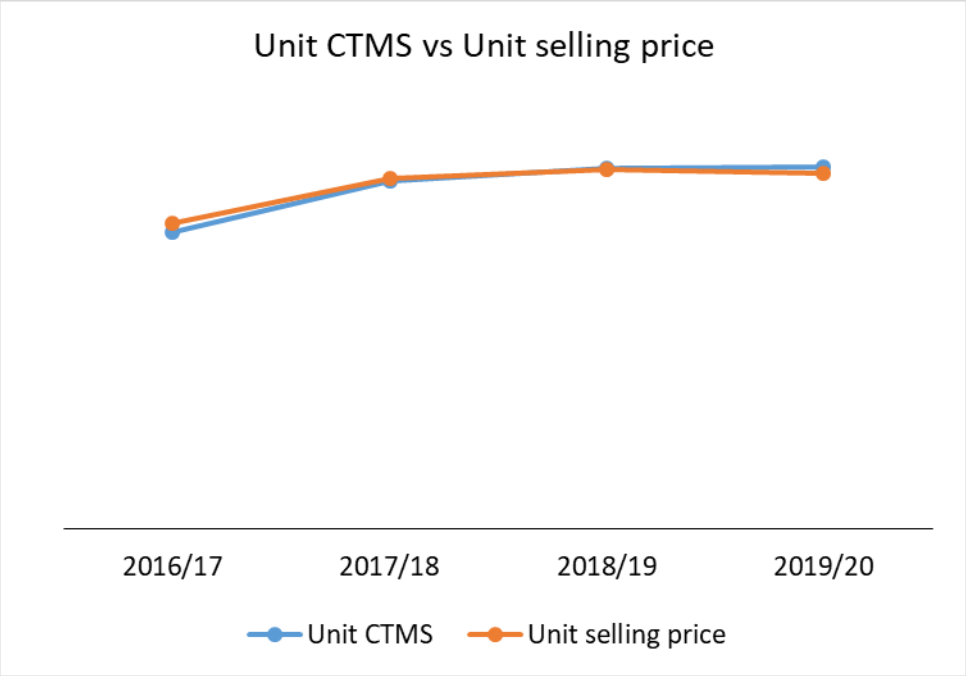

Figure 3 – Unit price and CTMS

In terms of price depression, Figure 3 evidences that MM Kembla experienced increasing selling prices until 2018/19, however prices began to fall in 2019/20.

In terms of price suppression, Figure 3 evidences that:

- CTMS per unit has increased year on year throughout the injury examination period;
- unit selling prices increased until 2018/19, though at a slower rate than the increase in CTMS;
- unit selling prices declined in 2019/2020 while unit CTMS increased, though at a slower rate than in prior years; and
- from 2018/2019 onwards unit CTMS exceeded unit selling prices.

Based on this analysis, the verification team considers that MM Kembla has experienced injury in the form of price suppression during the injury examination period and price depression during the investigation period.

8.5 Profit and profitability

Figure 4 below shows the movement in profit and unit profitability of MM Kembla's sales of its own production of copper tube in the Australian market since 1 July 2016.

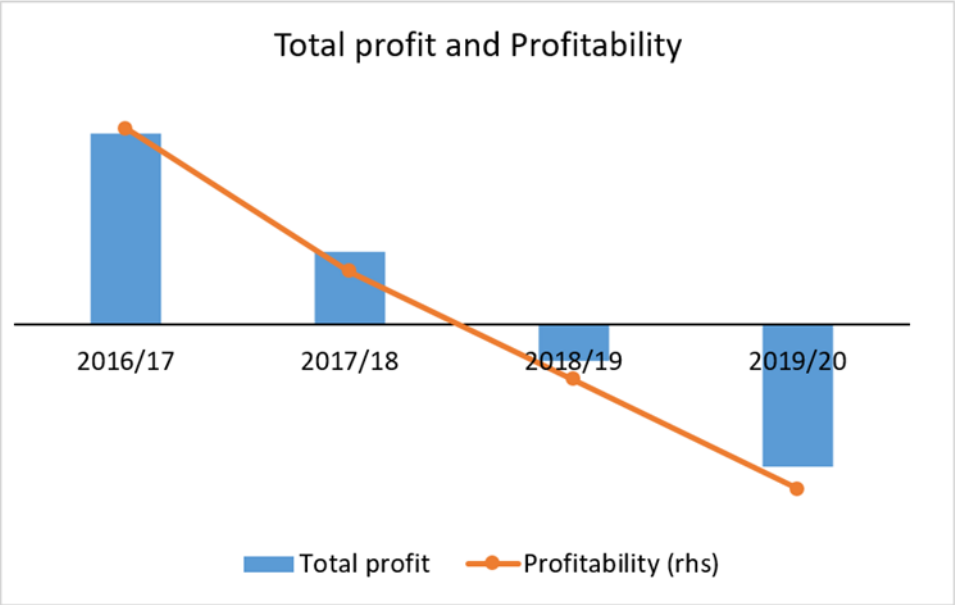

Figure 4 – Profit and profitability

Figure 4 indicates that MM Kembla has experienced decreasing profit and profitability across the injury examination period.

Based on this analysis, the verification team considers that MM Kembla has experienced injury in the form of loss of profits and reduced profitability.

8.6 Other economic factors

The verification team considered the following other economic factors:

8.6.1 Assets

Figure 5 below shows the written down value of assets employed by MM Kembla in the production of like goods during the injury examination period:

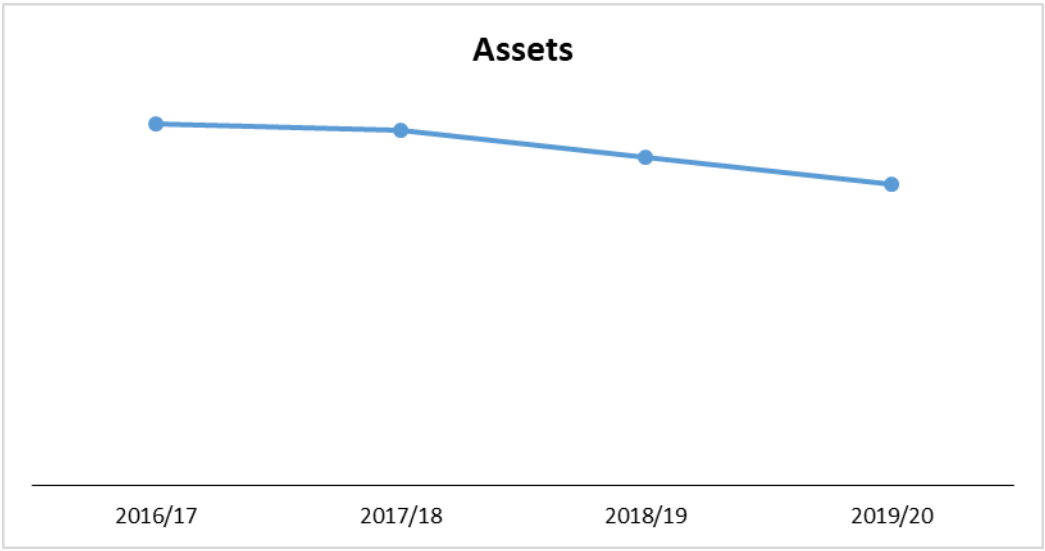

Figure 5 – Assets employed in the production of like goods

Figure 5 evidences that MM Kembla has experienced a reduction in the value of assets employed in the production of like goods across the injury examination period.

8.6.2 Capital expenditure

Figure 6 below shows the value of capital expenditure undertaken by MM Kembla in relation to the production of like goods during the injury examination period:

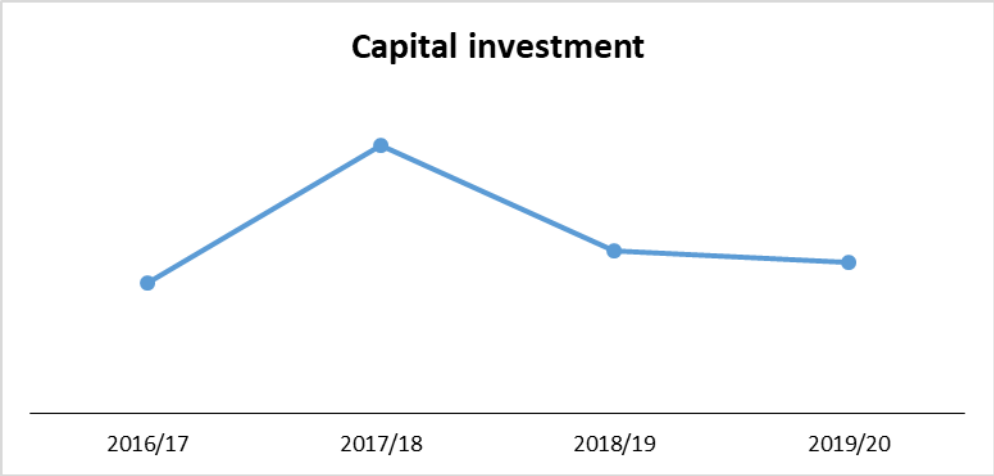

Figure 6 – Capital investment

Figure 6 evidences that MM Kembla undertook increased capital expenditure in relation to the production of like goods until 2017/18, after which capital expenditure has reduced.

8.6.3 Revenue

Figure 7 below shows the revenue generated by MM Kembla on the sale of manufactured like goods sold into the Australian market during the injury examination period:

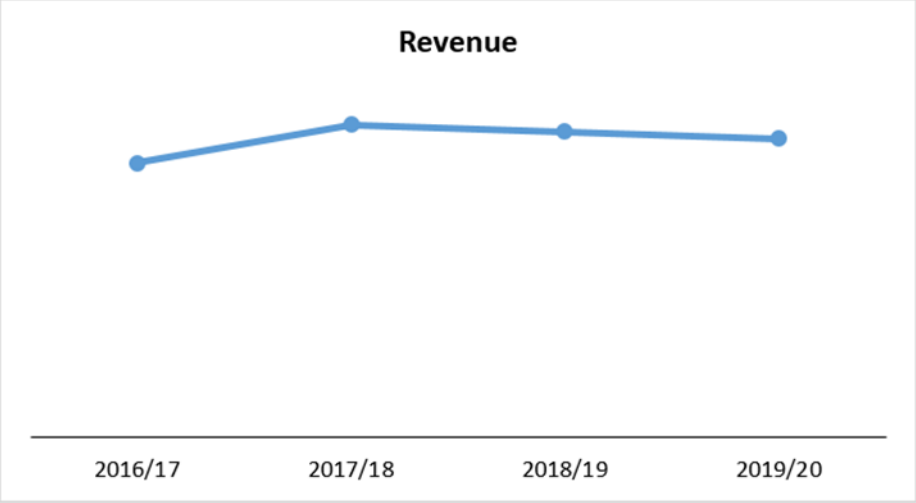

Figure 7 – Revenue from domestic sales of manufactured like goods

Figure 7 evidences that MM Kembla experienced increased revenue on the domestic sale of manufactured like goods until 2017/18, after which revenue has been in decline.

8.6.4 Return on investment

MM Kembla calculated return on investment using the return on sales method for sales of all like goods. The verification team noted that the calculation included the sale of exported like goods. The verification team recalculated return on sales to reflect the domestic sale of manufactured like goods only, which is shown in Figure 8 below:

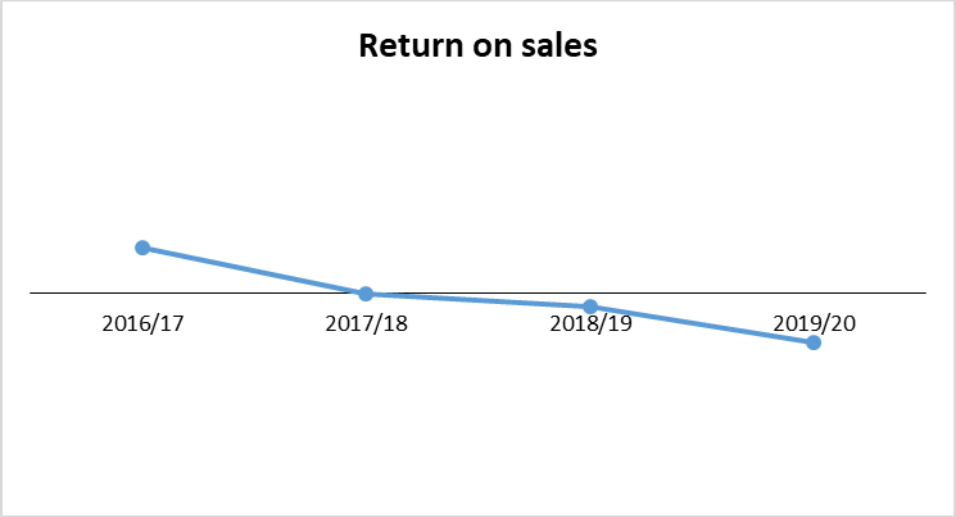

Figure 8 – Return on sales

Figure 8 evidences that MM Kembla has experienced decreasing return on sales throughout the injury examination period.

8.6.5 Capacity utilisation

Figure 9 below shows MM Kembla's capacity utilisation during the injury examination period:

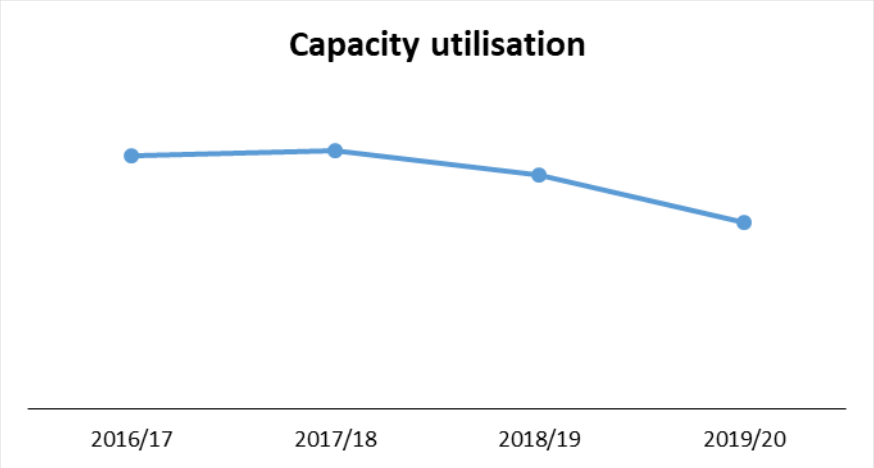

Figure 9 – Capacity utilisation

Figure 9 evidences that MM Kembla experienced increased capacity utilisation until 2017/18, after which time capacity utilisation has been in decline.

8.6.6 Employment

Figure 10 below shows the number of employees engaged in the production of like goods during the injury examination period:

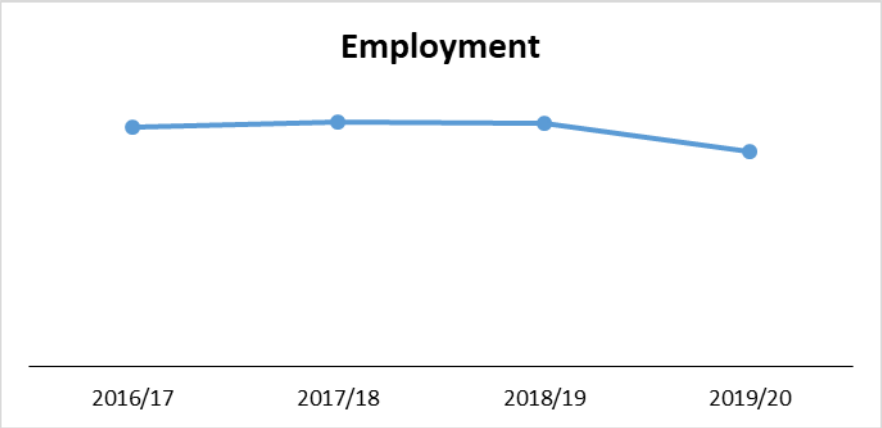

Figure 10 – Employment

Figure 10 evidences that MM Kembla experienced increased employment in the production of like goods until 2017/18, after which time employment has been in decline.

8.6.7 Wages

Figure 11 below shows the value of wages expended on the production of like goods during the injury examination period:

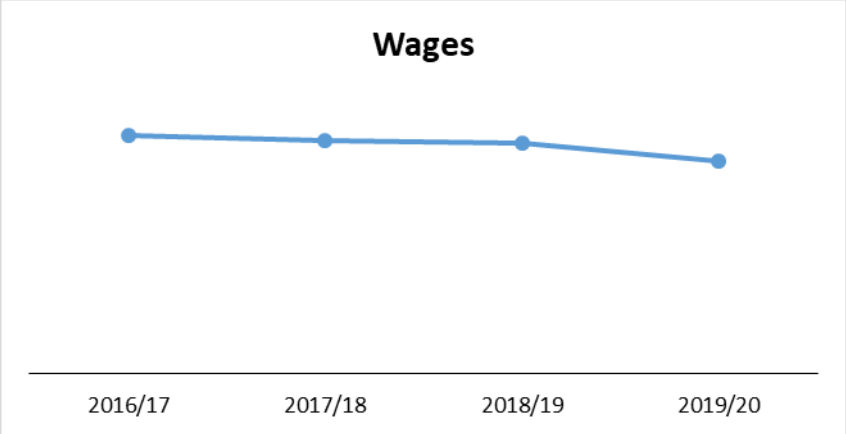

Figure 11 – Wages

Figure 11 evidences that MM Kembla has expended a decreasing amount on wages throughout the injury examination period.

8.6.8 Inventories

Figure 12 below shows the value of closing stock of like goods during the injury examination period:

Figure 12 – Closing stock

Figure 12 evidences that MM Kembla experienced increasing inventories from 2016/17 until 2018/19, however closing stocks reduced significantly in 2019/2020, to be below the level at the commencement of the injury examination period.

Based on this analysis, the verification team does not consider that MM Kembla has suffered injury in the form of increased inventories during the investigation period.

8.7 Conclusion

Based on an analysis of the information contained in the application and obtained and verified during the remote verification, the verification team considers that MM Kembla has experienced injury in the form of:

- loss of sales volume;
- price depression;
- price suppression;
- loss of profit;
- reduced profitability;
- reduced assets;
- reduced capital expenditure;
- reduced sales revenue;
- reduced return on investment;
- reduced capacity utilisation;
- reduced employment; and
- reduced wages.

For the reasons set out in section 8.3, the verification team has not made an assessment in respect of reduced market share, and refers this assessment to the case management team, to be made available to interested parties in the SEF.

9 CAUSAL LINK CLAIMS

9.1 Background and approach to analysis

Under section 269TG, one of the matters that the Minister must be satisfied of in order to publish a dumping duty notice is that material injury to an Australian industry producing like goods has been or is being caused or is threatened.

The verification team discussed with MM Kembla whether the alleged dumping and/or subsidisation of imported copper tube can be demonstrated to be causing material injury to the Australian industry, and collected evidence to support those claims. This evidence will be considered further during the course of the investigation.

9.2 Volume effects

As outlined in section 8.3 above, the verification team identified that MM Kembla's sales volumes of like goods have declined over the course of the injury examination period.

MM Kembla's application attributes the injury it claims to have experienced in the form of reduced sales volume and market share due to dumped and subsidised exports from China and dumped exports from Korea.

MM Kembla contended that imports of copper tube from China and Korea have increased by approximately 25 per cent over the injury examination period, and this coincides with a decline in MM Kembla's sales and market share. MM Kembla concluded that in a relatively stable market Chinese exports of copper tube have displaced both its sales and sales of imports from Korea.

MM Kembla provided ten case studies evidencing lost sales volumes that resulted from the price undercutting of dumped and subsidised imports.

In terms of lost sales volume, the verification team reviewed each example in conjunction with import and sales data obtained from importers, and was able to identify certain common customers where MM Kembla was experiencing falling sales volumes that were offset by rising volumes of sales of imported copper tube.

In respect of MM Kembla's claim of injury in the form of reduced market share, as outlined at section 3.4 of this report, the Commission has received further information from interested parties since initiation, which may be relevant to the assessment of import volumes and market size, and therefore the assessment of the market share for the goods.

Given this, the verification team has not assessed MM Kembla's claim in relation to market share for the goods and has referred this assessment to the case management team, to be made available to interested parties in the SEF.

9.3 Price effects

As detailed in section 8.4, the verification team considers that MM Kembla has experienced injury in the form of price suppression during the injury examination period and price depression during the investigation period.

In its application MM Kembla claimed that it had experienced price suppression due to the increasing presence of dumped and subsidised goods in the Australian market from China, as well as dumped goods from Korea. MM Kembla indicated, and the verification team confirmed during verification, that it has undertaken cost-saving initiatives across the injury examination period that have improved productivity. MM Kembla contended that the benefits from these improved efficiencies have not materialised due to the price undercutting from the dumped and subsidised imports. MM Kembla indicated that price undercutting has been particularly evident in the period from October 2019 when the largest Chinese exporter established warehousing facilities in Australia to sell direct to customers.

MM Kembla provided ten case studies to demonstrate price undercutting from the allegedly dumped and subsidised imports.

The verification team reviewed each of the price undercutting examples in conjunction with ABF import data, preliminary data provided in exporter questionnaire responses and import and sales data obtained from importers.

The verification team observed that in each case study price competition from Chinese and Korean exporters was a factor influencing the pricing proposals formulated by MM Kembla. This information will be analysed further during the course of the investigation.

9.4 Profit and profitability

The verification team observed that there is reasonable evidence to support MM Kembla's claims of price suppression, and that price depression has emerged during the final year of the injury examination period. MM Kembla has provided examples of import prices being used in negotiations to influence its price offers.

The verification team observed that price related injury experienced by MM Kembla and reduced sales volumes may have resulted in the reduced profits and profitability MM Kembla experienced during the injury examination period. These claims will be assessed further during the course of the investigation.

9.5 Other economic factors

The verification team found reasonable grounds to support the Australian industry's claims that it had experienced injury in the form of reduced assets, capital expenditure, revenue, ROI, capacity utilisation, employment and wages.

The causes of injury in relation to MM Kembla's other economic factors will be considered in more detail during the course of the investigation.

9.6 Injury caused by factors other than dumping and subsidisation

MM Kembla acknowledged that factors such as the increase in raw material costs for copper tube, increasing costs of energy and fluctuations in the Australian building and construction sector are relevant factors other than dumping that may impact on its economic condition.

MM Kembla is however of the view that any challenges brought about by these factors could be overcome to a greater degree in the absence of injury caused by dumping and subsidisation of goods imported into the Australian market.

9.7 Conclusion

The verification team considers costs and sales information provided by MM Kembla to be accurate, and suitable for the assessment of MM Kembla's injury claims.

Causation will be analysed in more detail during the course of the investigation.

10 APPENDICES AND ATTACHMENTS

Confidential Attachment 1	Verification work program
Confidential Appendix 1	Assessment of the economic condition of the Australian industry (CTMS, Revenue, Profit and preliminary injury analysis)