



Australian Government
Anti-Dumping Commission

PUBLIC RECORD

INVESTIGATION 271

ALLEGED DUMPING OF CERTAIN POLYVINYL CHLORIDE FLAT ELECTRIC CABLE EXPORTED TO AUSTRALIA FROM THE PEOPLE'S REPUBLIC OF CHINA

VISIT REPORT - AUSTRALIAN INDUSTRY

OLEX AUSTRALIA 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**

February 2015

CONTENTS

CONTENTS..... 2

ABBREVIATIONS..... 4

1 BACKGROUND AND PURPOSE..... 5

1.1 BACKGROUND..... 5

1.2 PURPOSE OF VISIT 5

1.3 MEETING DETAILS 6

1.4 INVESTIGATION PROCESS AND TIMEFRAMES 6

1.5 VISIT REPORT 7

2 THE GOODS..... 8

2.1 DESCRIPTION 8

2.2 TARIFF CLASSIFICATION..... 8

3 THE AUSTRALIAN INDUSTRY 9

3.1 CORPORATE, ORGANISATIONAL AND OWNERSHIP STRUCTURE..... 9

3.2 ACCOUNTING STRUCTURE AND DETAILS OF ACCOUNTING SYSTEMS..... 9

3.3 RELATIONSHIP WITH SUPPLIERS AND CUSTOMERS 9

3.4 MANUFACTURING FACILITIES AND PRODUCT RANGE 10

3.5 PRODUCTION PROCESS 11

3.6 LIKE GOODS..... 12

3.7 EMPLOYMENT NUMBERS 13

3.8 ANNUAL TURNOVER 13

3.9 CAPACITY..... 13

4 AUSTRALIAN MARKET 14

4.1 BACKGROUND..... 14

4.2 MARKET SEGMENTATION 15

4.3 MARKETING AND DISTRIBUTION..... 15

4.4 IMPORTS BY APPLICANT 16

4.5 DEMAND 16

4.6 MARKET SIZE 16

5 SALES 17

5.1 GENERAL 17

5.2 PRICING 17

5.3 ORDERING, INVOICING AND DELIVERY ARRANGEMENTS 18

5.4 LEVEL OF TRADE AND RELATED VS UNRELATED CUSTOMERS 19

5.5 VERIFICATION OF SALES DATA TO AUDITED FINANCIAL STATEMENTS..... 19

5.6 VERIFICATION OF SALES DATA TO SOURCE DOCUMENTS..... 20

5.7 EXPORT SALES 22

5.8 SALES – CONCLUSION..... 22

6 COST TO MAKE AND SELL..... 23

6.1 GENERAL 23

6.2 VERIFICATION OF PRODUCTION COST DATA TO AUDITED FINANCIAL STATEMENTS..... 23

6.3 VERIFICATION OF PRODUCTION COST DATA TO SOURCE DOCUMENTS 26

6.4 VERIFICATION OF SELLING, DISTRIBUTION, ADMINISTRATION AND OTHER EXPENSES 28

6.5 CONCLUSION 29

7 ECONOMIC CONDITION 30

7.1 APPLICANT’S INJURY CLAIMS 30

PUBLIC RECORD

7.2	COMMENCEMENT OF INJURY, AND ANALYSIS PERIOD.....	30
7.3	VOLUME TRENDS	30
7.4	PRICE SUPPRESSION AND DEPRESSION	31
7.5	PROFITS AND PROFITABILITY	34
7.6	OTHER ECONOMIC FACTORS	35
7.7	CONCLUSION	36
8	CAUSAL LINK.....	37
8.1	PRICE, PROFIT AND PROFITABILITY EFFECTS	37
8.2	INJURY CAUSED BY FACTORS OTHER THAN DUMPING	38
9	UNSUPPRESSED SELLING PRICE.....	39
10	APPENDICES AND ATTACHMENTS.....	40

PUBLIC RECORD

ABBREVIATIONS

\$	Australian dollars
the Act	<i>Customs Act 1901</i>
AND	Anti-Dumping Notice
Applicant	Olex Australia Pty Ltd
Australian Standard	Australian / New Zealand Standard AS/NZS 5000.2
Australian Wiring Rules	Australian Wiring Rules (AS/NZS 3000:2007)
BOM	Bill of Materials
Commission	Anti-Dumping Commission
Commissioner	Anti-Dumping Commissioner
CTM	Cost to make
CTMS	Cost to make & sell
LTI	Long term incentive
NIP	Non-injurious Price
Olex	Olex Australia Pty Ltd
PAD	Preliminary Affirmative Determination
PVC	Polyvinyl chloride
SEF	Statement of Essential Facts
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
like goods	the goods manufactured by the Australian industry which are alike to the goods under consideration.
TPS	Tough Plastic Shield
the Minister	the Minister for Industry & Science
USP	Unsuppressed Selling Price

1 BACKGROUND AND PURPOSE

1.1 Background

On 3 September 2014, Olex Australia Pty Ltd (Olex) (the applicant) lodged an application requesting that the then Minister for Industry publish a dumping duty notice in respect of certain polyvinyl chloride (PVC) flat electric cables exported to Australia from China.

Olex alleges that the Australian industry has suffered material injury caused by PVC flat electric cables exported to Australia from China at dumped prices. Olex claims that the injurious effects of dumping have been:

- price suppression;
- price depression;
- lost sales volume;
- loss of market share;
- reduced capacity utilisation;
- declining employment;
- reduced profit; and
- reduced profitability.

Olex provided further information in support of its application, restarting the 20 day period for consideration of the application. The Commissioner of the Anti-Dumping Commission (the Commissioner) ultimately decided to initiate an investigation. Public notification of the initiation of the investigation was made on 6 November 2014 in *The Australian* newspaper and through Anti-Dumping Notice (ADN) No. 2014/118.

1.2 Purpose of visit

The purpose of the visit was to:

- obtain general information about the Australian market for PVC flat electric cable;
- gain a greater understanding of the company's manufacturing, marketing and distribution processes;
- verify information provided in the application;
- obtain additional financial data about claimed injury to the Australian industry; and
- gather information relevant to assessing whether the allegedly dumped imports have caused material injury to the Australian industry.

1.3 Meeting details

Company	Olex Australia Pty Ltd 207 Sunshine Road Tottenham VIC 3012
Company Representative	Michael Crocker-Kloet, General Manager Operations
Consultant	Arthur Vlahonasios International Trade Remedies Adviser, Australian Industry Group
Dates of visit	2-4 December 2014 17 December 2014

The following were present at various stages of the meetings.

Olex Australia Pty Ltd	Michael Crocker-Kloet, General Manager Operations Lee Bennett, Plant Controller (Lilydale) Mark Fogarty, Operations Manager (Lilydale) Greg Stack, National Sales Manager (Distributors & Installers) Anthony Alembakis, Financial Planning & Analysis Manager Franck Vignau, Metal Risk & Treasury Manager Michael Bansagi, Manufacturing Engineer Vince Pavlovic, Pricing Manager (Distributors & Installers) Michael Gerassimou, Accounts
Consultant	Arthur Vlahonasios International Trade Remedies Adviser, Australian Industry Group
The Commission	Geoff Gleeson, Director, Operations 1 Rhys Piper, Manager Investigations, Operations 1 Angela Kidson, Investigator, Operations 2 Sarah Ong, Policy Officer, Legal & International Section

1.4 Investigation process and timeframes

We advised the company of the investigation process and timeframes as follows.

- The investigation period is 1 July 2013 to 30 June 2014.
- The injury analysis period is from 1 July 2010 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (5 January 2015) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

PUBLIC RECORD

- The Commission will not recommend a PAD until (and if) it becomes satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice. This was distinguished from the “reasonable grounds” threshold for initiation of the investigation.¹
- The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 24 February 2014, or such later date as the Minister allows under s.269ZHI of the *Customs Act 1901* (the Act). The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Minister, and will invite interested parties to respond, within 20 days, to the issues raised therein.
- Following receipt and consideration of submissions made in response to the SEF, the Commission will provide its final report and recommendations to the Minister. This final report is due no later than 10 April 2014, unless an extension to the SEF is approved by the Minister.

1.5 Visit report

We explained to the company that we would prepare a report of the visit (this report) and provide it to the company to review its factual accuracy, and to identify those parts of the report it considers to be confidential.

We explained that, in consultation with the company, we would prepare a non-confidential version of the report, and place this on the investigation’s Public Record.

¹ Subsequent to the visit but prior to concluding this report, the Commissioner made a PAD on 15 January 2015 (ADN 2015/11 refers).

2 THE GOODS

2.1 Description

The goods the subject of the application (the goods) are described by the applicant as:

Flat, electric cables, comprising two copper conductor cores and an 'earth' (copper) core with a nominal conductor cross sectional area of between, and including, 2.5 mm² and 3 mm², insulated and sheathed with polyvinyl chloride (PVC) materials, and suitable for connection to mains electricity power installations at voltages exceeding 80 V but not exceeding 1000 V, and complying with Australian / New Zealand Standard AS/NZS 5000.2 (the Australian Standard), and whether or not fitted with connectors.

The applicant indicated that the following products are excluded from the goods:

- single core cables, being cables with a single active core;
- "aerial cables" as defined by the Australian Standard;
- twin active flat cables, that is, flat cables comprising two active cores but no earth core;
- "circular cables" as defined by the Australian Standard;
- cables insulated and / or sheathed with non-PVC material, including but not limited to cross-linked polyethylene (XLPE) materials, including a combination of PVC and non-PVC material;
- cables comprising cores made of aluminium conductors; and
- "flexible cables (cords)" as defined by AS/NZS 3191 and / or AS/NZS 60227.

The application contains the following further information in relation to the goods the subject of the application:

The goods are commonly referred to as "building wire", because of its use by the building and construction industry in domestic, commercial and industrial mains power supply low-voltage wiring installations. For the purpose of this definition, the term "flat cables" means cables where the conductor and earth cores are laid parallel in the same plane, as defined by the Australian Standard.

For the avoidance of doubt, reference to "two copper conductor cores" refers to the "phase core" and "neutral core". The earth core (also comprising of copper) is additional to these two active cores.

2.2 Tariff classification

The goods are classified to the tariff subheading 8544.49.20 (statistical code 41) of Schedule 3 to the *Customs Tariff Act 1995*. The tariff description is:

"Insulated (including enamelled or anodised) wire, cable (including co-axial cable) and other insulated electric conductors, whether or not fitted with connectors; optical fibre cables, made up of individually sheathed fibres, whether or not assembled with electric conductors or fitted with connectors [...] for a voltage exceeding 80 V but not exceeding 1000 V [...] insulated with P.V.C. materials."

The goods exported to Australia from China are subject to 4 per cent duty.

3 THE AUSTRALIAN INDUSTRY

3.1 Corporate, organisational and ownership structure

Olex is an Australian private company, limited by shares. Olex was originally formed as a result of a merger between the Olympic Cables and Nylex Cables businesses in 1973. Since 2006, Olex has been ultimately owned by Nexans SA, a public company listed in France. Olex provided a diagram outlining these ownership arrangements in its application, which is reproduced as **Confidential Attachment 1**.

Olex produces a broad range of electrical cables. The goods subject to this investigation are produced at Olex's Lilydale facility, which has been in operation since 1936 and was the site of the original Nylex Cables business.

Confidential Attachment 2 was provided with the application and indicates that the company is structured along functional lines, with managers responsible for sales and marketing, operations, supply chain, finance and business services, and human resources. Olex has three business lines which effectively describe the three key channels to market for the company, being:

- Transmission, Distribution & Operations;
- Industry; and
- Distributors & Installers (which incorporates the like goods).

Two further business units, Australmold and Olex New Zealand Ltd, also report to the company.

3.2 Accounting structure and details of accounting systems

Olex's financial accounting period is from 1 January to 31 December. Olex's application included the audited financial statements and annual report of its parent company, Nexans Australia Holding Pty Ltd, for 2011 and 2012. The 2013 report was provided following the verification visit (**Confidential Attachment 3** refers). The company's accounts are declared to have been audited in accordance with Australian accounting practices, and to be a fair and true view of the financial position of the consolidated entities.

Olex's company accounts are managed through SAP, which also operates as the Enterprise Resource Planning system. A separate tool, Business Intelligence (BI), extracts summary data from SAP and is used to generate additional management reports. A number of spreadsheets are also used (such as to manage the rebates and discounts applying to each customer).

3.3 Relationship with suppliers and customers

3.3.1 Suppliers

Olex's chief raw material inputs are copper, PVC and packaging materials (such as plastic spools, reels, plastic wrap, pallets).

All copper is imported, and is currently obtained from [REDACTED]

[supplier details]. The remaining raw materials are obtained from Australia-based suppliers.

We found no evidence to suggest that Olex’s purchases were otherwise than at arm’s length and on competitive terms. We make further observations regarding copper pricing below.

3.3.2 Customers

Olex sells PVC flat electric cable primarily into the domestic market. The data provided by Olex in its application showed that the proportion of its sales of like goods made in the domestic market was greater than 90% for each year of the injury analysis period.

Olex advised that it sells to both wholesalers (that is, customers that then on-sell the goods to others), and contractors (predominantly electricians or builders working on specific projects). Olex advised that it is not related to any entities amongst these groups of customers.

We found no evidence to suggest that Olex’s sales were otherwise than at arm’s length and on competitive terms.

3.4 Manufacturing facilities and product range

3.4.1 Manufacturing facilities

Olex currently manufactures the PVC flat electric cable product at its Lilydale facility. Olex explained that the site manufactures a range of different cable products, with a dedicated factory housing two lines producing building wire (which includes the like goods). Olex advised that there have been no significant changes to its production facility since 1 July 2010.

Olex advised that the facility in New Zealand manufactures a similar range of cable products and that some inter-company sales have occurred in the past, although these are unusual.² Olex advised that none have occurred during the investigation period.

3.4.2 Product range

Olex sold [REDACTED] variants of like goods during the injury analysis period, of which only nine were sold during the investigation period. The variations are based on sheathing colour³ and packaged length⁴; all other characteristics (including performance) are identical.

² [REDACTED] -[explanation of product differences].

³ White or black. A grey variant has been discontinued.

⁴ Standard lengths are 10 metres, 25 m, 100 m, 110 m, 150 m and 500 m. Specific non-standard lengths can be ordered and are designated “shorts” in the sales data.

PUBLIC RECORD

Each variant is represented by a unique model number in Olex's sales data. Olex explained that each model number largely follows the same pattern⁵:

- The first three letters / numbers denote the physical structure of the cable ("CNC" = PVC);
- The next three letters / numbers denote the conductor cross section ("P07" = 2.5mm²);
- The next two letters / numbers denote the packing configuration ("A1" = 100m roll);
- The next three numbers denote the core configuration ("002" = 2 active cores and an earth core);
- The next two letters denote the sheathing colour ("WV" = white); and
- The final two letters denote the core colours ("AA" = red and black active cores with a green / yellow earth).

The like goods are all designated by Olex as CNCP07, which are all PVC-insulated cable with cores having a cross sectional conductor area of 2.5 mm², as per the Australian Standard.

3.5 Production process

During the verification meetings, we conducted an inspection of the production facilities at Lilydale. We observed the production process as follows.

- Copper rod with a diameter of 8 mm is fed into wire drawing machines [REDACTED]
- Separately, PVC is compounded [REDACTED]
- The [REDACTED] copper wire is subsequently drawn a second time to produce 0.7 mm diameter strands. [REDACTED]
- The strands are fed into a bunching machine, which bunches the strands together into a conductor.
- The conductor then passes through an extruder, and the appropriate PVC insulation (e.g. red) covers the conductor to produce a cable. The cable passes through a series of water baths to cure the PVC and reduce the temperature before it is wound onto a drum. [REDACTED]
- The drums carrying the various component cables subsequently feed into a second extrusion process which combines the two active cores (red, black) and the earth core (green / yellow) in the appropriate configuration and adds the white PVC sheathing.

⁵ The sales data in Appendix A4 indicates there was a change in designation (around December 2013) of the white, 10 m and white, 25 m models.

PUBLIC RECORD

- The printing required to comply with the Australian Standard (bearing the identity of the manufacturer, the year of manufacture, the designation of the insulation and the term “ELECTRIC CABLE” followed by the voltage rating) is added immediately afterwards, before the finished cable is again passed through a series of water baths.
- When cooled, the cable is wound onto a spool of the appropriate length (e.g. 100 metres) before being wrapped and placed onto pallets by robot, ready for despatch. [REDACTED]

Olex noted that it conducts in-line testing of the goods at several stages to identify errors or failures. The goods are also tested regularly to ensure that the dimensions and electrical performance of the cable complies with the Australian Standard. Two examples of Olex’s test reports were provided (**Confidential Attachment 4** refers).

Olex advised that for two of the models it sells to [REDACTED] [customer and product details] the cutting and packaging is completed by a third party. For orders of specific lengths, Olex will cut the cable and spool it accordingly.

3.6 Like goods

The Commission has obtained samples of the imported goods, along with a sample of the like goods produced by Olex and one other manufacturer in Australia. We observed that the goods are largely identical, with only superficial variations (for example, the shade of white for the sheathing was not consistent).

The Commission considers that pricing behaviour in the market indicates that the imported goods and the like goods produced by Australian manufacturers are completely interchangeable. Olex noted that this is a function of the Australian Wiring Rules, which requires an end user to only use goods which meet the Australian Standard.⁶ The goods are sold to the same types of end users (wholesalers, retailers, contractors) and for the same purposes and end uses.

The Commission considers that Olex has demonstrated the following in relation to PVC flat electric cables:

- the primary physical characteristics of the goods and the locally produced goods bear a close resemblance;
- the goods and locally produced goods are commercially alike as they are sold to common users, and directly compete in the same market;
- the goods and locally produced goods are functionally alike as the range of end-uses are alike; and
- the goods and locally produced goods are highly likely to be manufactured in a manner which is alike.

⁶ We noted the recent publicity surrounding the recall of the Infinity Cable product which did not meet the Australian Standard. We noted the involvement of the Australian Competition & Consumer Commission in this regard.

We reviewed the comments made in *Consideration Report 271* regarding the physical, commercial, functional and production likenesses between the imported goods and the like goods manufactured by Olex. We found no evidence to suggest that those observations ought to be reconsidered.

3.7 Employment numbers

Olex advised that it currently employs [REDACTED] people at the Lilydale site, and a further [REDACTED] at the Tottenham site. Olex also has [REDACTED] employees spread across its warehouse and distribution facilities in Sydney, Brisbane and Perth.

During the verification of costs, Olex advised that its workforce is flexible in the sense that the skills are applicable to producing a range of cable products. As a result, Olex does not have employees dedicated solely to the production of the like goods. Olex's application included figures for labour hours spent in production of the like goods, which Olex has advised was based on the labour component of the bill of materials and was extrapolated based on the volume of cable produced in each quarter.

Prior to the visit we analysed the data to estimate the number of full time employees likely to be engaged in the production of the goods (**Confidential Attachment 5 refers**). On inspection of the facility and the production process, we were satisfied that the labour hours estimated was a reasonable indicator of the number of employees actually engaged in the production of the like goods.

3.8 Annual turnover

Olex's total net revenue for all products sold in the investigation period (1 July 2013 to 30 June 2014) for both domestic and export sales was \$ [REDACTED]

Net revenue contribution by the like goods (again, both domestic and export sales) represented \$ [REDACTED] of total revenue.

3.9 Capacity

Olex operates three shifts, 24 hours a day over five days at the Lilydale site. Olex estimated that it manufactures around [REDACTED] [production volume] of the like goods each week; its application estimated that its production of like goods was at almost [REDACTED] per cent of capacity during the investigation period.

4 AUSTRALIAN MARKET

4.1 Background

PVC flat electric cable is used in fixed wiring applications in power and light circuits. These installations are at working voltages up to and including 450/750 V, and must be installed by a licenced electrician in accordance with the Australian Wiring Rules.⁷ The goods are used in residential and commercial building and construction, such as new home construction, renovations, units / apartments, commercial refurbishments, shopping centres and the like. The goods are also used in light industrial construction projects, such as providing wiring for the general power and lighting supply circuits of factories and warehouses.

PVC flat electric cable is also known as Tough Plastic Shield (TPS). Olex explained that the purpose of the PVC sheath (the TPS) is to protect the conductors as the cable is pulled through (mainly) timber walls in the course of house construction / renovation in Australia. The cable is relatively unique to the Australia and New Zealand markets as houses are largely constructed using timber frames (as opposed to Europe and North America where stone is more prevalent); it is also a reflection of the standard electricity transmission arrangements in the Australian market (240V at 30A).

There are several variations of PVC flat electric cable which are not the goods under consideration. Smaller versions (such as those with a 1 mm² or 1.5 mm² conductor cross section) are used in applications requiring a lower current (such as halogen or LED lights); larger versions (such as those with a 4 mm² conductor cross section) are used to provide power to ovens, air-conditioners and other fixed appliances requiring a higher current.

These smaller and larger cables have differing costs and performance outcomes. Smaller cables do not carry as much power as a larger cable without suffering an increase in resistance, which in turn generates heat and increases the risk of fire. Larger cables are able to carry more power, but because of the substantial increase in copper content are also much more expensive. Electricians have strong financial and regulatory incentives to use the most cost-effective cable for the particular wiring task at hand, which means that there is little if any substitution of the goods under consideration with other products.

Given the heavy involvement of electricians in the installation of the goods, the chief route to market is via wholesalers of electrical products. Some additional sales are made through retail channels.

There are currently four manufacturers of the like goods in Australia, of which Olex is the largest. Olex claims that the only other significant supplier of the goods is an importer, Electra Cables (Aust) Pty Ltd (Electra).⁸

⁷ AS/NZS 3000:2007.

⁸ The market analysis subsequently undertaken by the Commission in PAD Report 271 indicates that the total market for PVC flat electric cable was approximately 137 million metres in financial year 2013/14: <http://www.adcommission.gov.au/cases/documents/008-Report-PAD271.pdf>.

4.2 Market segmentation

Olex estimated that there are approximately 1600 electrical wholesaler stores in Australia, which is the chief route to market. Olex indicated that there are four major wholesalers, comprising two companies (Rexel and Lawrence & Hanson) and two buying groups (Gemcell Electrical Group and MM Electrical Merchandising). These four customers accounted for [REDACTED] of Olex's total domestic sales volume of PVC flat electric cable during the investigation period (**Confidential Attachment 6** refers).

Olex noted that the other suppliers of PVC flat electric cable may also sell to retailers (such as Bunnings, Masters, Mitre 10 and similar stores) or directly to builders / contractors (which tend to be larger developers with their own employed electricians), but that these sales represent a much smaller proportion of the market.

A small proportion [REDACTED] of Olex's total sales of PVC flat electric cable during the investigation period was exported. Olex advised that export sales were primarily to New Zealand and the Pacific region, but that some exported goods can also find their way into unusual markets (such as Africa) where wiring regulations are not as restrictive as in Australia and Australian electricians are working.

4.3 Marketing and distribution

Olex advised that it has annual contracts with its largest customers, providing examples (see discussion at 5.6). The contracts (referred to as supplier agreements) set out [REDACTED] [supply arrangements]. Olex also has general terms and conditions of trade which are separate to these formal contracts.

Olex largely manufactures the goods to stock, maintaining a minimum balance system (when stocks reach a particular point, a new process of raw material purchases and production is triggered). In addition to its manufacturing facility at Lilydale, Olex has warehouse and distribution facilities in Sydney, Brisbane and Perth. Olex advised that it typically holds [REDACTED] [stock levels], and that the four sites enable Olex to deliver the goods (as well as its other products) within [REDACTED] hours across the entire market.

Olex's sales team comprises business development managers, each of whom reports to a regional manager. In addition to negotiating orders and liaising on projects, the business development managers obtain intelligence regarding the market.

Olex occasionally collaborates with a customer on a promotional activity. For example, [REDACTED] [promotional arrangement]⁹

Olex believes that most suppliers operate in the market on broadly similar terms.

⁹ This is clear in the Olex sales data for the December 2013 quarter.

4.4 Imports by applicant

Olex advised that it is not an importer of the goods from China, although acknowledged that it had done so several years ago to cover a period of plant shutdown (as was discussed in the visit report arising from the previous investigation).¹⁰

4.5 Demand

Olex advised that demand is primarily driven by new housing / commercial development and refurbishment of existing properties, and that these in turn are driven by broader economic conditions (such as population growth, interest rates, house prices) and consumer confidence.

Olex advised that its forecasts are derived from intelligence obtained from its customers and the market more broadly, as well as its own research of demand for housing and construction (the major markets for the goods). Olex uses a range of resources for these purposes.

4.6 Market size

Olex indicated that there is limited publically available information which provides evidence of the size of the market.

As noted in *Consideration Report 271*, we are cautious regarding the use of Australian Customs & Border Protection Service (ACBPS) import data for the goods under tariff classification 8544.49.20 (statistical code 41), as that data includes a much wider range of imported products than the goods under consideration. We intend to address this issue in greater detail once a fuller picture of the market is available, based on information provided by the importer and the other Australian manufacturers.¹¹

¹⁰ Investigation 178 refers: www.adcommission.gov.au/cases/ITR178.asp.

¹¹ The Commission has subsequently made progress on this analysis, as explained in *PAD Report 271*. The total market for PVC flat electric cable was approximately 137 million metres in financial year 2013/14.

5 SALES

5.1 General

Olex's application included detailed domestic sales data (transaction by transaction) for the investigation period in Appendix A4, as well as summaries of net sales data for each of its models of like goods during the injury period in Appendix A-6.1. This data was the focus of our sales verification process during the visit.

Olex considers price to be the main basis of competition for PVC flat electric cable. Olex likened competition for sales of PVC flat electric cable to milk or bread in a supermarket context, arguing that suppliers need to be price competitive on the key goods in order to attract buyers for their other products.

In most cases, an electrical wholesale store manages its own inventory of cables and typically places an order for the goods directly with its preferred supplier. Alternatively, the customer may approach the market with a request for quotation for a suite of products, and will subsequently assess the price competitiveness of the responses received. Olex's experience in both cases is that wholesalers will tend to purchase their various cable products from a single supplier if the price for PVC flat electric cable is competitive and the price for the order overall is competitive, rather than breaking down the order to obtain the cheapest price on each type of cable. A minimum order requirement for some customers further encourages this behaviour.

Olex considers that sales of its other cable products (which are not like goods) [REDACTED] are heavily influenced by whether it wins the sale on PVC flat electric cable.

5.2 Pricing

5.2.1 Pricing system

Olex prepares a price list for PVC flat electric cable on a fortnightly basis. List prices are generated based on Olex's cost to make (which includes copper price movements), overheads, recovery, profit expectations, demand forecasts and the prevailing market price (which is based on feedback collected from the market and collated centrally by Olex). All price offers include the cost of freight / delivery.

Olex indicated that it typically receives a monthly request for quote (RFQ) from most customers. Olex's sales team responds to each RFQ based on the price list, but will seek approval from relevant managers to match or beat other prices if to do so will win the sale and maintain the commercial margin desired during the period.

Olex advised that it does not report on the frequency with which its list price offer is the price actually paid.

5.2.2 Rebates and discounts

Olex advised that rebates and discounts are a common feature of the market, providing as evidence **Confidential Attachment 7**. Olex manages its rebate and discount arrangements using a central spreadsheet. We observed that Olex applies the following rebates and discounts:

[REDACTED]

All rebates are calculated within Olex's accounting system and [REDACTED] advised that rebates and discounts are variously applied [REDACTED] at the time of the sale [REDACTED] at the time of the payment [REDACTED] or on a quarterly or annual basis [REDACTED]

[REDACTED] [rebate arrangements]. These variations account for discrepancies that we observed between the scale of the rebates and discounts which are recorded in the central spreadsheet and the actual rebates and discounts recorded as having been paid in SAP against each transaction.

Our analysis indicated that the average rebate per metre paid during the investigation period (1 July 2013 to 30 June 2014) was [REDACTED] (**Confidential Attachment 8** refers).

Over the last two to three years, Olex observed that customers are seeking unqualified rebates rather than the more traditional rebate / discount structure. The effect of this shift is that customers are able to take advantage of better spot prices now, rather than attempt to obtain the LTI and co-invest in marketing over a longer period of time. In practice, customers are now regularly trading the suppliers off against one another in order to obtain the best prices. We observed this phenomenon in the evidence of price negotiations provided by Olex with its application (**Confidential Attachments A-9.5** refer) and in additional materials provided during the visit (**Confidential Attachment 9**).

5.3 Ordering, invoicing and delivery arrangements

Orders are typically placed via e-mail from the customer to the relevant business development manager. Olex noted that the customer base tends not to split orders to obtain the best price for each item, preferring instead to purchase all goods from the one supplier. In the case of contractors, a contractor will typically issue a RFQ to any number of suppliers & distributors; Olex will respond with a price offer if it judges that it is financially viable given the additional cost of cutting the goods / delivery to the site.

The goods are usually delivered from the nearest warehouse direct to the customer within [REDACTED], with the driver providing a delivery docket. Invoices are generated on the date of despatch using SAP and indicate the payment terms [REDACTED]; the invoices are handed to the customer at the time of delivery.

12

[REDACTED] [rebate arrangements]

Olex advised that it has implemented some supply chain initiatives with two of its customers to reduce the cost of servicing orders. [REDACTED]

[REDACTED] [confidential customer arrangements]

5.4 Level of trade and related vs unrelated customers

We were informed that sales are made on an arm's length basis to wholesalers and contractors, none of which are related customers. We examined Olex's financial statements and found no relevant related party included in the financial statements and notes.

5.5 Verification of sales data to audited financial statements

To assess Olex's sales data for completeness and relevance, the Commission has undertaken verification of the detailed data to ensure it can be traced to the audited financial statements.

In advance of the meeting, we reconciled the totals for volume and value of the detailed domestic sales data reported by Olex at Appendix A4 of its application to the summary domestic sales data at its Appendix A-6.1. Appendices A4 and A-6.1 relate only to like goods to the goods the subject to the application. We also noted this data reconciled with Olex's Appendix A3 where the summary volume and revenue amounts were shown separately as totals for like goods; for each model of like goods; and also as totals for all products manufactured and sold by Olex.

We chose the December 2013 quarter for closer examination and asked Olex to demonstrate how the sales data reported in its Appendix A4 is complete and relevant.

Olex provided an Excel workbook containing all sales data for all products sold in 2013. Olex explained this data was taken from SAP using the BI system. The Excel workbook provided, which Olex called the BI report, is at **Confidential Attachment 10**.

Within that Excel workbook, Olex created a pivot table (at worksheet called *C2013 Q4 Pivot*) where it showed sales volume and net revenue for the December 2013 quarter that matched the data provided in its Appendices A-6.1 and A3. We were satisfied that the filters used (according to product codes) in the pivot were set appropriately to ensure all relevant sales were included and no irrelevant sales were included. We noted that the product codes for like goods sold for export could also be identified using the product code filters. We were similarly satisfied with the Olex records for volume and value for export sales. A screenshot of the pivot data for the December 2013 quarter that reconciles with Appendix A-6.1 (and A3) for like goods is at **Confidential Attachment 11**.

Olex then demonstrated how each of the quarterly results from the BI report, for sales of all products, could be summed up to an amount that reconciled with the net revenue for Olex that was reported in a "*Summary PL*" worksheet (allowing for an immaterial difference). The "*Summary PL*" also showed the revenue and expenses for other entities in the group. We noted that when all the net revenues were summed for the year 2013, the total figure (when adjusted for audit purposes) was consistent with the amount reported in the financial statements at **Confidential Attachment 3**.

PUBLIC RECORD

A copy of the Olex sales summary by quarter (from the BI Report), and a copy of the “*Summary PL*” for all entities in the group are included in **Confidential Attachment 10**.

Having regard to the above, we are satisfied that the sales data for PVC flat electric cable shown in Olex’s Confidential Appendix A-6.1 (summary data) and in Confidential Appendix A4 (transactional data) are reasonably complete and relevant accounts of all sales of those goods made by Olex in the period from 1 July 2013 to 30 June 2014.

5.6 Verification of sales data to source documents

The Commission undertook downwards verification to source documents in order to assess the confidential Appendix A4 Sales data for accuracy.

Prior to the verification visit, we selected twelve sales from the submitted sales listing, which are outlined in the table below. The selected transactions covered different quarters, models, customers, levels of trade and trading terms (particularly discounts and rebates) within the investigation period. We advised Olex that we required supporting documentation for each selected sale.

Customer name	Date of sale	Order Number
[REDACTED]	1/07/2013	90407368
[REDACTED]	16/09/2013	90426432
[REDACTED]	11/10/2013	90432812
[REDACTED]	29/10/2013	90436844
[REDACTED]	14/11/2013	90440787
[REDACTED]	28/11/2013	90444932
[REDACTED]	24/01/2014	90456026
[REDACTED]	19/03/2014	90468007
[REDACTED]	14/04/2014	90474831
[REDACTED]	15/04/2014	90475039
[REDACTED]	9/05/2014	90480452
[REDACTED]	6/06/2014	90487471

During the verification, Olex provided source documents relevant to the twelve transactions, including:

- tax invoices;
- order acknowledgements;
- delivery notices (from SAP);
- quotes;
- supplier agreements;
- SAP screen-shots evidencing the actual rebates applied;
- excerpts from general ledger and accounts receivable ledger evidencing payment into the company account;
- receivables payment;
- remittance advices;
- bank statements; and

PUBLIC RECORD

- credit adjustment notes.

These source documents form the hard copies for **Confidential Attachments 12A through 12L**. Not all documents were provided for every transaction.

We matched the invoice details (value, quantity, product details, and invoice date) for all transactions to Olex's sales listing in Appendix A4. While the actual payment terms were sometimes different to the terms quoted on the invoice, we considered they were reasonably consistent, and were not indicative of some credit term other than the one quoted.

We sought further documentary evidence to establish proof of payment at the verification visit. The company promptly supplied remittance advice and bank statement extracts as proof of payment received for the three transactions which were requested. The remittance advices listed the selected invoice numbers and listed the gross invoiced amount for payment as part of the remittance advice total, and the provided bank statement extracts displayed the payment of the total of these remittance advices to Olex's account.

One transaction, Order Number 90487471, was a credit adjustment which amended several invoices issued earlier in the investigation period. This transaction cancelled off 40,000 metres of product which was not sold.

Olex representatives explained that rebates did not appear on invoice, as unit pricing already reflected rebates applied in the SAP system. We asked to see evidence of the rebates being applied to support this claim. Olex showed relevant system excerpts for two selected transactions (order numbers 90444932 and 90468007), and later supplied detailed screen shots of these SAP transactions (and which have been included as **Confidential Attachment 13**). We were satisfied that rebates were being applied as stated.

Separately, we queried some additional transactions in the A4 Sales data. Order numbers 94011850 and 90437352 related to six transactions on the same day for the same customer which were for both positive and negative quantities of three different models of the like goods. Olex investigated these transactions and advised that there was a shift in purchasing behaviour (moving from stock to a consignment arrangement) which resulted in a credit and debit of the goods being processed in the system for accounting purposes (**Confidential Attachment 14** refers).

A small number of orders (numbers 90424785, 90425753, 90448411 and 90457065) were placed by a customer listed as "DO NOT USE" in the A4 Sales data. Olex investigated these transactions and advised that the customer was a member of a wholesale network and there had been a change in the invoiced account details during the period (**Confidential Attachment 15** refers).

As a result of the above verification, we are satisfied that invoice details recorded in Olex's sales listing are accurate, and that Olex's customers pay the invoiced amount listed in the sales listing.

5.7 Export sales

As noted previously, Olex's export sales accounted for [REDACTED] of its total sales of PVC flat electric cable during the investigation period. Based on the pivot table generated to verify sales upwards (5.5 refers) and that the product codes for like goods sold for export could also be identified using the product code filters, the Commission was satisfied that the export sales in the management accounts were reconciled with the values provided in Appendix A3.

5.8 Sales – conclusion

Based on the above analysis, we consider that the sales data presented by Olex in Appendices A4, A6.1 and A 6.2 are reasonably complete, relevant and are an accurate reflection of the actual sales of PVC flat electric cable during the period from 1 July 2010 to 30 June 2014. Accordingly, we consider this data to be suitable for analysing the economic performance of Olex's PVC flat electric cable operations from 1 July 2010.

6 COST TO MAKE AND SELL

6.1 General

Olex provided detailed cost to make and sell data for each model of the like goods, as well as aggregate figures, for each quarter from March 2010 to June 2014.

The Commission decided to focus its verification of Olex's cost to make and sell data on:

- verification of production cost data upwards to the audited financial statements;
- verification of production cost data downwards to source documents, with a particular focus on the cost of copper; and
- verification of SG&A expenses upwards to the audited financial statements.

6.2 Verification of production cost data to audited financial statements

To assess Olex's cost to make and sell data for completeness and relevance, the Commission has undertaken verification of the detailed data to ensure it can be traced to the audited financial statements.

We chose the costs in relation to Olex's 100 m white product (product code CNCP07A1002WVAA) in the December 2013 quarter for closer examination and asked Olex to demonstrate how the production cost data reported in its Appendix A-6.1 for that selection is complete and relevant.

6.2.1 Standard variable costs

Olex began with the standard variable costs. Olex explained that it has a Bill of Materials (BOM)/Route for each product code. Olex advised that the total standard variable cost assigned to the 100 m white product in the December 2013 quarter was an amount calculated by the multiplication of the sales volume and each component of the standard variable cost for that model. The standard variable cost components are:

- materials;
- direct labour;
- variable overheads (energy); and
- other direct expenses and fixed expenses.

Olex provided an Excel workbook containing all sales data and corresponding standard variable costs for all products sold in 2013. Olex explained this data was taken from SAP using the BI system referred to above and included at **Confidential Attachment 10**.

Within that Excel workbook, Olex created a Pivot table (at worksheet called *C2013 Q4 Pivot*) where it showed the total standard variable costs that matched Appendix A-6.1. We were satisfied that the filters used (according to product codes) in the Pivot were set appropriately to ensure all relevant standard variable costs were included and no irrelevant standard variable costs were included. We noted that the product codes for like goods sold for export could also be identified using the product code filters. We were similarly satisfied with the Olex records for standard variable costs for export sales. A worksheet *Reconciliation* drawing on the BI report data for the December 2013 quarter and that reconciles standard variable costs with Appendix A-6.1 for the 100 m white product is included in **Confidential Attachment 10**.

Olex then demonstrated how each of the quarterly results from the BI report, for standard variable costs of all products, could be summed up to an amount that reconciled with the cost of sales for Olex that was reported in a *Summary PL* worksheet (allowing for an immaterial difference). The *Summary PL* also showed the revenue and expenses for other entities in the group. We noted that when all the costs of sales were summed for the year 2013, the total figure was consistent with the amount reported in the audited financial statements at **Confidential Attachment 3**. A copy of the Olex cost of sales summary by quarter (from the BI Report), and a copy of the “*Summary PL*” for all entities in the group are included at **Confidential Attachment 10**.

6.2.2 Variances

Olex then sought to demonstrate how the variances (from standard) could be traced to the audited financial statements. Olex provided a copy of its “*Plant Operating Statement*” for 2013, which is at **Confidential Attachment 16**. This document shows total amounts for standards, actuals and variances with respect to the production costs elements for all goods produced at Lilydale. Olex explained that it allocated variances from standard in Appendix A-6.1 in accordance with the variances in the plant operating statement. It did this separately for:

- materials (usage and wastage);
- direct labour;
- variable overheads (energy);and
- other direct expenses and fixed expenses.

Olex considers these variances from standard at the overall level for Lilydale are reasonably representative of the variances that would be expected for any one product group produced at Lilydale.

Olex demonstrated how the total manufacturing variances figure for Lilydale (from the Plant Operating Statement), when summed together with the total manufacturing variances for Tottenham, amounted to the variances figure shown in its management accounts.

While examining the allocation of manufacturing variances, Olex noted what appeared to be minor errors in the calculations of two of the components – i.e. materials (usage and wastage), and other direct expenses and fixed expenses. These errors were apparent when comparing the figures in the *Variances* worksheet used in Appendix A-6.1 and the figures in the Plant Operating Statement. After the visit, Olex provided revised calculations for these variances (to accord with the Plant Operating Statement) and it also provided an updated Appendix A-6.1 that included the amended costs data. A comparison of the original Appendix A-6.1 and the amended version is contained at **Confidential Attachment 17**. Those documents show that the amended amounts for material costs, other direct expenses and fixed expenses resulted in an increase of 0.9% on the cost to make in the original A-6.1 for the 100 m white product during 2013.

PUBLIC RECORD

However, we also observed some significant fluctuations in the amended costs data, which were driven by two categories of cost items. The first, “Administration Expenses”, comprises:

- general management, finance, IT, human resources and technical cost centres, and other administrative costs across departments;
- depreciation of fixed assets;
- corporate charges; and
- restructuring charges.

The second, “Amortisation & Impairment of Intangibles”, comprises costs associated with the treatment of customer lists as an asset at the time of the purchase of the business by Nexans in 2007, accounting allocations and the treatment of goodwill.

We considered that several of these costs related primarily to the broader Olex business rather than to the like goods. We also considered that the inclusion of some of these costs may distort the injury analysis, as they could not be reasonably attributed to the actual cost to make and sell the like goods. As a result we excluded the restructuring charges and all of the costs allocated to Amortisation & Impairment of Intangibles for the purposes of the injury analysis.

Lastly, Olex demonstrated how it had calculated the materials purchase price variance (PPV). Olex referred to the worksheet in Appendix A-6.1 called *DEC 13 PPV*. This worksheet was the Olex *Lilydale PPV Statement for the month of December 2013* (which included YTD amounts). Olex demonstrated how it used that data to calculate one weighted average PPV for materials that was based on the copper, PVC, and packaging costs. We noted how this PPV was used to calculate the “*Summary PPV*” amounts in its Appendix A-6.1.

6.2.3 Metals adjustment

Olex demonstrated that the *BI Report* data also identified the metals adjustment amounts by product code. These amounts agreed with the figures shown under the line items by the same name in the Appendix A-6.1.

Olex explained that for management reporting purposes it chooses to set a standard cost for copper that varies little over time, notwithstanding that the LME price for copper varies regularly. Olex advised that an amount of [REDACTED] has been its “LME standard” for a few years. Therefore, Olex explained, the variance from this “LME standard” can at times be quite significant. Accordingly, Olex accounts for that variance separately from the usual accounting for usage (and wastage) variances and purchase price variances. The variance attributable to the difference between the actual LME price and Olex’s “LME standard” is treated and reported as the metals adjustment.

6.2.4 Conclusion – completeness and relevance of production costs

Based on the above, we are satisfied that the production cost data for PVC flat electric cables, as shown in Olex’s revised Confidential Appendix A-6.1, is a reasonably complete and relevant account of such costs in the injury analysis period.

6.3 Verification of production cost data to source documents

6.3.1 General

Olex's cost accounting system is based on standard costing and the use of a BOM and costing route for each product. Olex explained that the standard costs in the BOM are revised at least annually. Variances from standard costs are allocated back to each product in accordance with the overall performance of the manufacturing plant at which the products are produced. The variances shown in Appendix A-6.1 were allocated in accordance with the Lilydale plant.

Olex explained that all the production cost elements of direct labour, variable overheads, and other direct expenses and fixed expenses, are assigned to each product in the BOM in accordance with the machine hours required for each process. The BOM showed costs and machine hours for each process twice; once for 'run-time' and once for 'set-up time'.

In response to a question about costing treatment for by-products and joint products, Olex explained that the accounting treatment is the same for all products. For example, Olex explained that the cost of copper in 2.5mm core, which is used for the like goods in this investigation and in other goods, is costed exactly the same way into other products in terms of standards and in variance allocation.

Given the standard costing system and the explanation of the accounting treatments above, we sought to achieve satisfaction as to the similarity in costing for various products. To this end, we asked for BOMs in relation to:

- 100 m white product (like goods);
- 2.5 mm², 2 core, 1 earth orange circular cable (not like goods); and
- 1.5 mm², 2 core cable (not like goods)

These documents were provided by Olex and are at **Confidential Attachment 18**.

We noted some minor differences in the costs of copper, which appear to be consistent with slight variations on usage rates in the standards. We also compared and contrasted the costs for other materials, labour, variable overheads, and other expenses (apart from materials, these are all captured on the BOMs in relation to each process). We found no reason to conclude the costs identified in the BOMs were disproportionate for any particular model when compared to other models.

Having regard to the fact that copper represents approximately [REDACTED] per cent¹³ of production costs for like goods, and that Olex has been subject of a past verification exercise for an anti-dumping investigation, we decided to focus on verifying the costs of copper for the purposes of linking the Appendix A-6.1 figures to source documents.

¹³ This is a measure of the standard cost of copper rod 8.00mm as a percentage of total cost of goods sold for Olex for the 100m white product (CNCP07A1002WVAA) for the six months ending June 2014. The calculation was made for that period because the Olex Appendix A6-1 did not have sufficient detail to separately identify copper rod prior to those two quarters.

6.3.2 Raw materials - copper

Standards and variances

In the earlier exercise of tracing standard variable costs and variances to the audited financial statements, we traced the variance calculations on Olex's Appendix A-6.1 for materials to the *Lilydale PPV Statement for the month of December 2013* (see the worksheet in *Appendix A-6.1 CTMS CNCP07 WHT 100m.xlsx* called *DEC 13 PPV*). To proceed to supporting source documents, we asked Olex for detailed data on copper purchases in December 2013, recorded at standard and the associated gains / losses at actual.

Olex provided an Excel workbook called *12 Dec 13 LM PPV Statement.xlsx*. Using the worksheet called *Receipts*, Olex demonstrated that the total for copper receipts (19 receipts) in December 2013 matched the amount shown in the *Lilydale PPV Statement for the month of December 2013*. Olex also identified the variance from standard was shown in a worksheet called *PPV*, and the amount matched that shown in the *Lilydale PPV Statement for the month of December 2013* (see the worksheet in *Appendix A-6.1 CTMS CNCP07 WHT 100m.xlsx* called *DEC 13 PPV*). Copies of screenshots from these two worksheets are at **Confidential Attachment 19**.

We selected the receipt transaction that was largest by volume and value for December 2013 and asked Olex for source documents to support the data. Olex provided copies of the relevant purchase order, invoice, and evidence of payment, which are all at **Confidential Attachment 20**. The volume matched the amount in the *Receipts* workbook, and that volume multiplied by Olex's LME standard cost [REDACTED] matched the value figure in the *Receipts* worksheet. Olex explained that the difference between this standard and the actual LME price for copper forms the metals adjustment figure which is reported separately on the Appendix A-6.1.

In relation to copper, the following points represent a summary of the Olex approach to accounting for variances:

- Variance from "LME standard" – this is incurred when buying copper and is a function of the difference between Olex's "LME standard" or base value of copper and the actual LME price for the copper purchased. It is treated and reported as the metals adjustment, for which there is a line item of the same name in Appendix A-6.1;
- Purchase Price Variance – this is the purchase price variance only in relation to the supplier's "price premium" component of the copper price. This purchase price variance does not relate to the part of the copper price linked to LME;
- Material Usage and Wastage Variance – this element relates to the normal variations from standard incurred through usage and wastage rates that may be above or below budget. Appendix A-6.1 accounts for such variance in a separate line item of the same name.

Hedging activity – copper

Olex explained that it undertakes metal hedging activities to mitigate the risk of incurring losses generated by purchases and sales of raw materials at different times. To that end, Olex undertakes hedging as follows:

PUBLIC RECORD

- Buy side – Olex hedges to cover the risk associated with changes in copper prices between the time of the purchase of copper and the effective sale of the copper in finished goods. The relevant instruments here are contracts that Olex explained to be akin to ‘put options’; and
- Sell side – Olex hedges to cover the risk associated with changes between forecast sales volumes and actual sales volumes (noting the selling prices are linked to a preceding hedging period). Where, for example, sales orders are less than expected, Olex can replace sales forecasted with a contract of sell options through its broker on the LME.

Olex provided a series of documents that contained a working example of the metal hedging transactions, which is at **Confidential Attachment 21**.

We noted that Olex had not originally accounted for the metals hedging gains / losses in its Appendix A-6.1. Olex agreed to update its selling, distribution and administration expenses to include the gains / losses incurred in relation to metals hedging, and it presented this in the form of the amended Appendix A-6.1.

6.3.3 Conclusion – production costs

Based on the above, we are satisfied that the production cost data for PVC flat electric cables, as shown in Olex’s revised Confidential Appendix A-6.1, is a reasonably accurate reflection of its production costs in the injury analysis period.

6.4 Verification of selling, distribution, administration and other expenses

We asked Olex to demonstrate how it had calculated the selling, distribution and administration expenses it provided in Appendix A-6.1. Olex explained that it had calculated such expenses with reference to its “*SAP actuals*”, which it provided in an Excel workbook.

We examined the “*SAP Actuals*” data provided with Appendix A-6.1 including the links between the Excel workbooks. While attempting to trace the selling distribution and administration expenses in the “*SAP Actuals*” to the Summary PL 2013 (and, in turn, to the audited financial statements), we noted that Olex had not allocated certain income and expense items. In particular, we noted that items relating to foreign exchange gains / losses and metals hedging gains / losses had not been allocated.

We suggested that Olex re-allocate the expenses in accordance with the figures contained in the PL Summary 2013, as these figures could be linked to the audited financial statements. Olex agreed, and after making the amendment, it provided revised Appendix A-6.1 workbooks containing the revised calculations of selling, distribution and administration expenses.

PUBLIC RECORD

Its final calculations of selling, distribution, administration and other expenses comprised the following items:

- distribution expenses;
- marketing expenses;
- administration expenses (adjusted, as explained at 6.2.2);
- amortisation of intangibles (adjusted, as explained at 6.2.2);
- gains / losses on foreign exchange;
- gains / losses on metals hedging; and
- finance income and finance costs.

Based on the above, we are satisfied with Olex's calculations of its selling, distribution, administration and other expenses relating to PVC flat electric cables, as shown in Olex's revised Confidential Appendix A-6.1, for the injury analysis period.

6.5 Conclusion

The Commission has verified the cost information provided by Olex and is satisfied that the data is reasonably complete, relevant and accurate. We are therefore satisfied that the cost to make and sell data provided by Olex is suitable for analysing the economic performance of its PVC flat electric cable operations from 1 July 2010.

A copy of the revised Confidential Appendix A-6.1 is at **Confidential Appendix 1**.

7 ECONOMIC CONDITION

7.1 Applicant's injury claims

In its application Olex claimed that the Australian industry has been injured through:

- price suppression;
- price depression;
- lost sales volume;
- loss of market share;
- reduced capacity utilisation;
- declining employment;
- reduced profit; and
- reduced profitability.

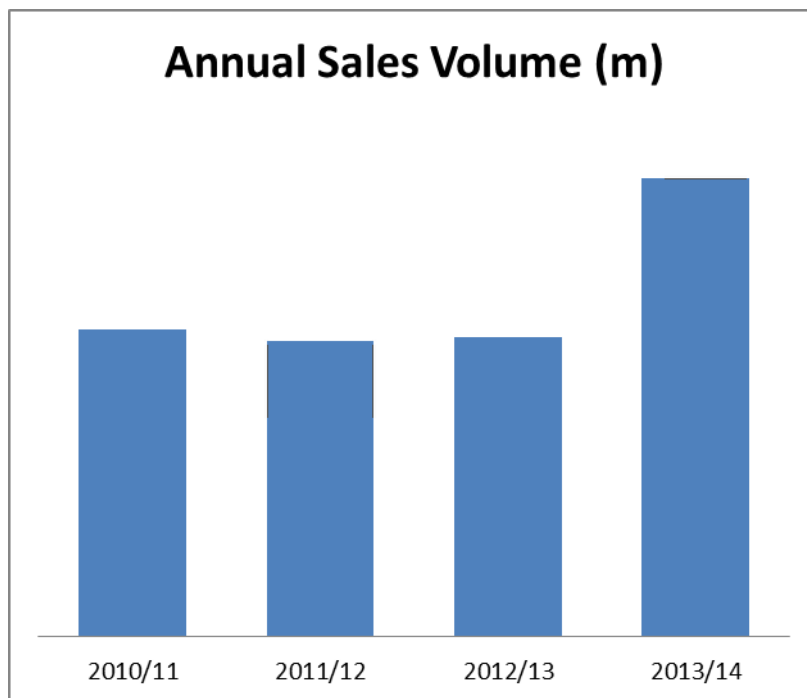
7.2 Commencement of injury, and analysis period

The Commission will examine the Australian market and the economic condition of the Australian industry from 1 July 2010 for the purposes of its injury analysis. Olex claimed that dumped goods had been present in the market prior to these dates, but that injury had been particularly felt since the quarter ending 31 March 2011.

Olex has been invited to complete Appendix A6 to include data for the September 2014 and December 2014 quarters to further support its claims that it continues to suffer injury as a result of dumped goods.

7.3 Volume trends

The figure below illustrates the annual volume of Olex's sales over the injury analysis period. We observed that Olex's sales volume of PVC flat electric cable has substantially increased in the period 1 July 2013 to 30 June 2014.



Graph 1 – Olex Sales Volume

Olex noted at the verification visit that injury may be suffered in a growing market if the Australian industry has not grown at the same rate as would be expected in an otherwise competitive market. Olex also pointed to the evidence provided with its application regarding specific sales volumes that were lost to Electra during the investigation period.¹⁴

Although we accept that Olex may have suffered injury on this basis, we did not have sufficient data to make an informed assessment of this claim. We noted that the Commission has sought more detailed information from the other members of the Australian industry and anticipates the cooperation of the largest importer, Electra. We therefore anticipate that we will have sufficient data to enable a more comprehensive analysis in the near future.¹⁵

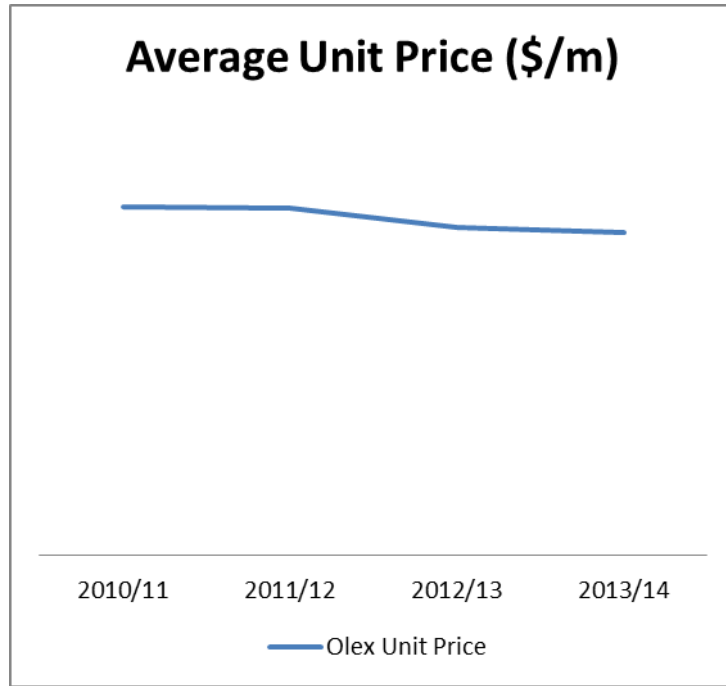
7.4 Price suppression and depression

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.

We analysed the average net unit price (that is, after rebates and discounts) for all of Olex's sales of the like goods. The following graph illustrates that Olex's average price has declined during the injury analysis period.

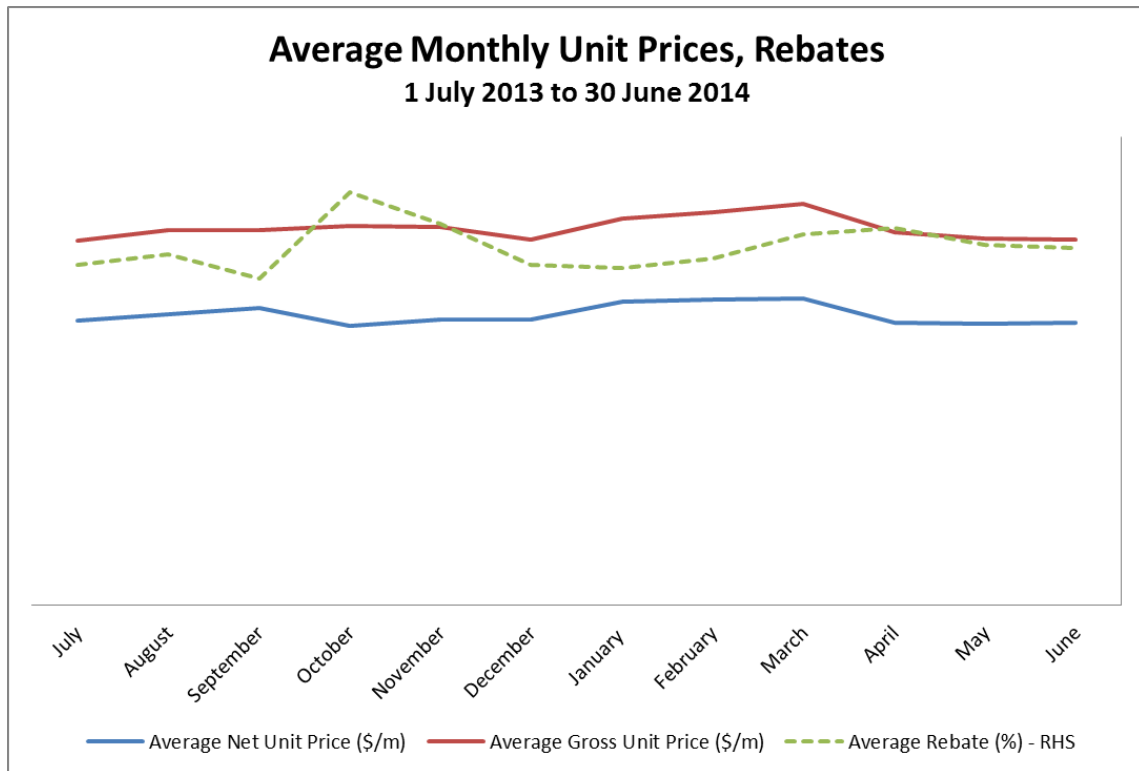
¹⁴ Olex's application, Confidential Attachments A-9.5.23, 30, 32, 36, 42, 45, 46, 47 and 48 refer.

¹⁵ As noted above, the analysis of volume has subsequently been addressed in greater detail by the Commission in *PAD Report 271*.



Graph 2 – Olex’s Average Annual Unit Prices

We also examined the monthly unit prices (both gross and net) and the average rebate applied during the period 1 July 2013 to 30 June 2014. The following graph indicates some variation from month to month, but prices have remained relatively steady as rebates / discounts have increased during the investigation period.



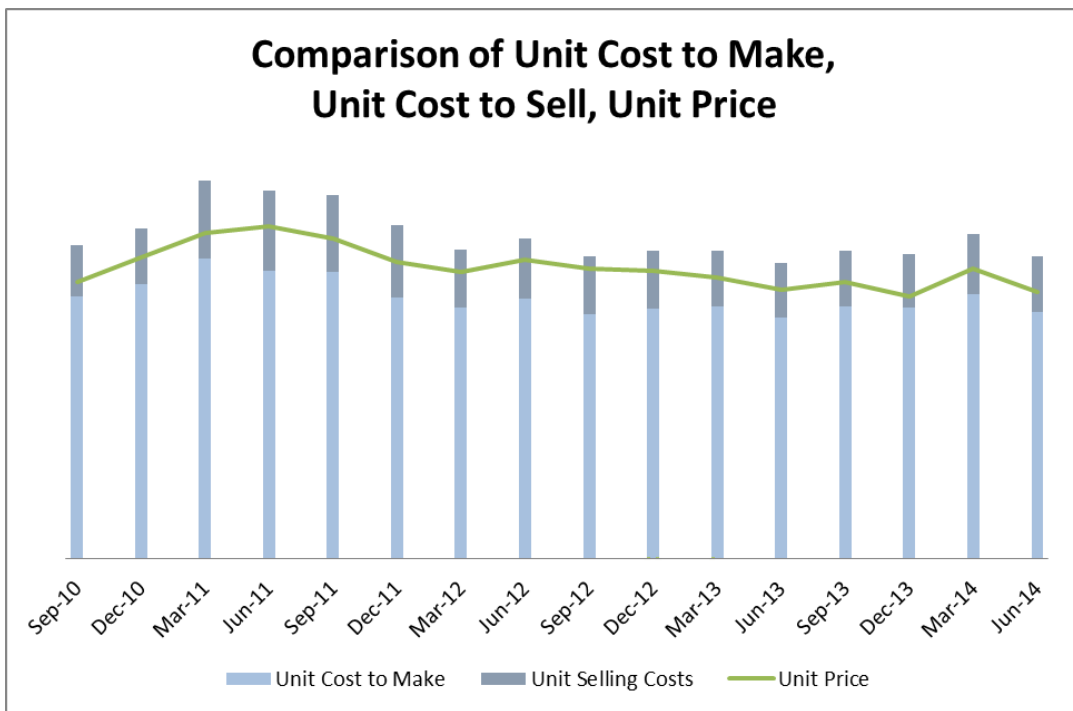
Graph 3 – Comparison of Unit Prices, Rebate Proportion

PUBLIC RECORD

We observed that the sharp increase in the average rebate applied in October and November 2013 coincided with a large volume of sales of the 110 m model to a single customer with already favourable rebate terms. Further, we observed that sales volumes in the April, May and June 2014 months were substantially above the monthly average, whilst gross and net unit prices were noticeably lower. Olex explained that this was the result of a deliberate strategy to match prices with the imported goods.

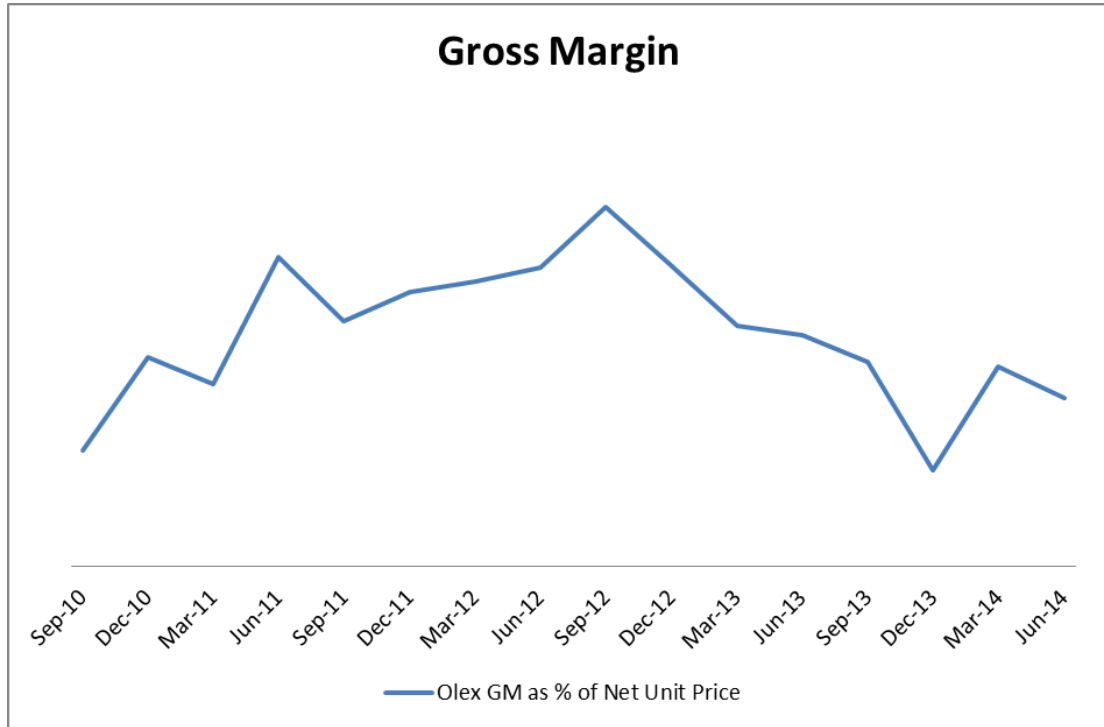
We have concluded that the data indicates that Olex's prices have been depressed.

We also examined the relationship between Olex's per unit cost to make, per unit cost to sell and the net unit prices for each quarter of the injury analysis period, as illustrated below.



Graph 4 – CTM, CTS and Price Comparison

Graph 4 demonstrates that there has been an increase in the unit selling costs in 2014 which has not been matched by an increase in the unit price, and that unit prices have at no stage recovered the combined cost to make and sell. Graph 4 also indicates that the average unit selling price has remained consistently higher than the unit cost to make, but that the difference between the two (the gross margin) has noticeably narrowed in the period from September 2013 to June 2014. Expressed as a percentage of revenue, the movement in gross margin is shown below:



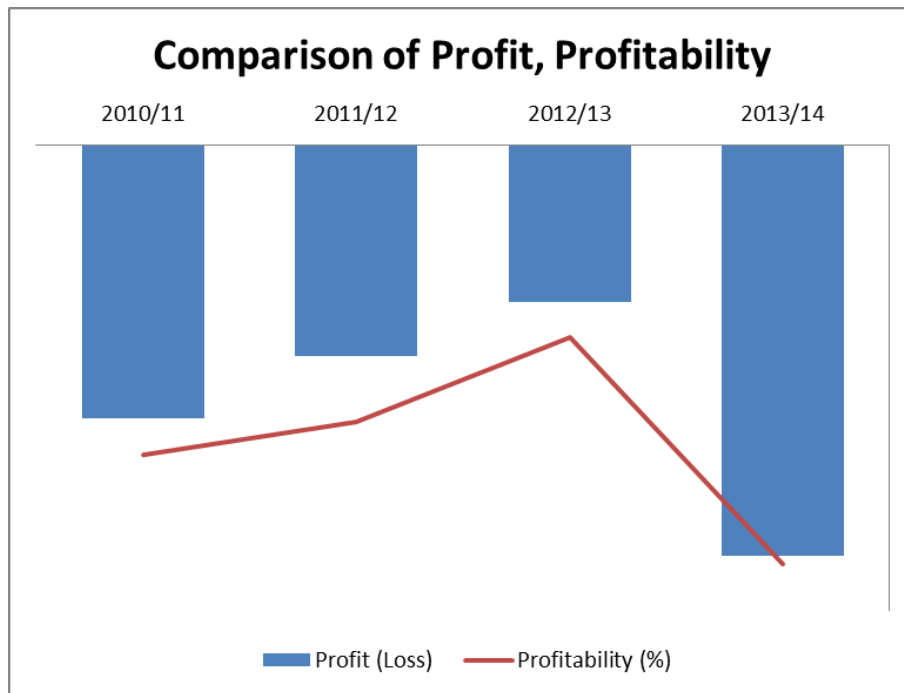
Graph 5 – Olex’s Quarterly Gross Margin

The declining gross margin trend from the December 2012 quarter has been relatively consistent. The further deterioration in the gross margin in the December 2013 and June 2014 quarters is indicative of Olex’s stated behaviour in the market and its attempt to win market share by matching the price of the imported goods.

Price suppression is indicated by Olex’s inability to raise its prices to a level that would enable Olex to either make a profit or reduce its losses. We therefore consider that the above analysis supports Olex’s claims, and indicates price depression and price suppression effects in the Australian market.

7.5 Profits and profitability

The following chart shows movements in Olex’s profits and profitability (profits measured as a percentage of revenue) for PVC flat electric cable sales in Australia from 2010/2011 to 2013/2014.



Graph 6 – Comparison of Profit, Profitability.

Graph 6 indicates that Olex's profits and profitability in respect of domestic PVC flat electric cable sales have been negative since 2010/11, but were improving during a period of relatively stable sales volumes between 2010/11 and 2012/13 (Graph 1 refers). Viewed alongside Graph 5, there is a close correlation between Olex's gross margin performance and its profit and profitability performance; the substantial increase in sales volume in 2013/14 appears to have been achieved through reducing the gross margin and therefore at the expense of profit and profitability.

We consider that the data provided supports the claims made by Olex that it has experienced material injury through reduced profits and profitability over the relevant period.

7.6 Other economic factors

Olex claims that it has experienced injury in respect of the following other economic injury factors:

- reduced capacity utilisation; and
- reduced employment.

To support its claims regarding other economic injury factors, Olex completed Confidential Appendix A7 for PVC flat electric cables for the period 2010/11 to 2013/14. Graph 6 illustrates Olex's annual capacity utilisation.

These claims were examined in *Consideration Report 271*. The Commission found that the data provided in the application did not support the claims made by Olex that it has experienced material injury through reduced capacity utilisation and reduced employment during the investigation period. No additional evidence in respect of these factors was presented at the visit, and therefore we have nothing to add to the analysis at this stage.

7.7 Conclusion

Based on an analysis of the information contained in the application and obtained and verified during our visit, the Commission considers that Olex has experienced injury in the form of:

- price depression;
- price suppression;
- reduced profits; and
- reduced profitability.

As noted above, the Commission's view on Olex's claim that it has suffered injury as a result of lost market share will be formed following analysis of data gathered from the other Australian industry participants and the major importer of the goods, Electra.

8 CAUSAL LINK

We discussed with Olex whether the alleged dumping of imported PVC flat electric cable can be demonstrated to be causing material injury to the Australian industry.

Olex reiterated that there is no practical difference in the design, quality or performance of the Australian-made PVC flat electric cable and the Chinese imports, and therefore the primary basis for competition is price. Olex claimed that the market is so competitive that Olex has two choices: it can either

- maintain its price (and lose sales volume to cheaper offers); or
- it can maintain its volume (by matching or beating other prices, but at the expense of profitability).

Olex has indicated that the high degree of price elasticity in the market means that these strategies are mutually exclusive.

8.1 Price, profit and profitability effects

The Australian market for PVC flat electric cable appears to be highly price sensitive. Olex expressed the view that Electra tends to be the lowest price competitor in the market.

We observed that the imported product regularly competes directly with Olex (in terms of the same customers, for like products, on similar terms). Olex has provided evidence of price negotiations and outcomes for a range of transactions with different customers which allegedly demonstrate the undercutting of list prices by the imported goods. Olex has provided specific examples where its matching of the prices for the dumped goods prevented it from recovering its CTMS. Olex has also provided evidence of nine known instances in which sales volumes were specifically lost to the imported goods between January 2013 and April 2014.

At verification, Olex provided additional examples of more recent price offers in the market which undercut Olex's list price (**Confidential Attachment 9** refers). We noted that the evidence provided does not indicate what rebates or discounts were subsequently applied in each case, but does demonstrate that Olex loses sales to Electra. Olex argued that the matching of undercut prices has caused the deterioration in Olex's profit and profitability.

Olex claims (and the data provided supports the conclusion that) it has responded to the presence of dumped goods in the market, which has resulted in price depression and price suppression. In turn, this has resulted in reduced profits and profitability.

Olex has plotted known price offers by Electra and its own corresponding offers to the same customer during the investigation period (Diagram A-9.2.2 in the application refers). Olex claims that the graph also illustrates the depressive effect of undercutting on its own prices. Olex claims that the strong price competition (including undercutting) from the dumped imports has influenced the downward trend in Olex's prices over the injury period, which in turn has impacted Olex's net gains / losses during the period. Olex's data demonstrates that its unit prices have declined over the four year injury period; we consider it likely that Electra's prices are exerting pressure on Olex's prices, regardless of whether those goods are dumped.

Olex claims that its gross margin percentage (the difference between selling price and the CTM, expressed as a percentage of the selling price) has been impacted by the presence of dumped goods in the market, and that presence has prevented Olex from raising its prices by a sufficient value to cover the unit CTMS. Our analysis (particularly Graph 5) supports this claim.

We consider that the price, profit and profitability injury outlined in Chapter 7 is material, and that there is a likelihood that the injury is caused by the allegedly dumped goods.

8.2 Injury caused by factors other than dumping

In its application, Olex examines the influence of the exchange rate for the Australian dollar on the affordability and price competitiveness of the imported goods. Olex argues that if the value of the Australian dollar was a significant influence, it would expect to see an increase in the quantity of imports of like goods from other countries. Olex notes that it has observed no such increase in the analysis of market share.

Olex also examines the possibility that material injury may have been caused by price undercutting behaviours of the various members of the Australian industry. Olex has compared the list price offers of the Australian industry members with the price offers by Electra between December 2012 and February 2014; Olex has found that Electra's offer was cheapest on six of the seven occasions examined. Olex therefore argues that domestic price competition is not a factor causing material injury to the applicant.

The Commission examined these issues in *Consideration Report 271*. No additional evidence was provided by Olex on these points, and we therefore have nothing to add to the analysis at this stage. These issues will be canvassed in the SEF as to some extent they rely on information that can only be provided by the other Australian industry members, as well as the importers of the goods.

9 UNSUPPRESSED SELLING PRICE

We observed that the Commission's preferred approach to calculating an unsuppressed selling price (USP) may not be suitable in this investigation.

Ordinarily, the Commission follows the hierarchy outlined in the *Dumping & Subsidy Manual*:

“In calculating the USP, the Australian industry's selling prices will normally be used at a time unaffected by dumping. If there are sound reasons for not using this approach, a price may be constructed based on the industry's cost to make and sell, plus a profit.

If either of these methods is not appropriate, the selling prices of undumped imports in the Australian market will be used. The NIP [non-injurious price] will be considered before making a preliminary affirmative determination and imposing securities. The Commission will also examine USP/NIP issues in the statement of essential facts for the purpose of assessment of material injury and causal link.”¹⁶

Olex has indicated that it considers dumping to have occurred over several years. Although we make no finding as to whether that is the case or not, the Commission recognises that it is not desirable to rely on financial data from a period which bears little relationship to current market conditions.


Further, Olex noted that it has not been able to generate a profit on sales of the like goods at any time during the injury period. The Commission reserves its judgement as to the appropriate level of Olex's profit (that is reasonable in these circumstances) that ought to be used for this purpose.

Finally, the Commission noted that there appear to be no other significant volumes of imports in the market other than from China. This means there is unlikely to be a selling price for undumped imports which will be comparable for this purpose.

Olex has indicated that it will consider whether to make a submission on this topic.

¹⁶ http://www.adcommission.gov.au/reference-material/manual/documents/DumpingandSubsidyManual-December2013_001.pdf, page 128.

10 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	A copy of the revised Confidential Appendix A-6.1
Confidential Attachment 1	Olex ownership arrangements
Confidential Attachment 2	Olex functional management structure
Confidential Attachment 3	 Annual Financial Statement 2013
Confidential Attachment 4	CNCP07 in-line testing report examples
Confidential Attachment 5	ADC analysis of direct staff numbers
Confidential Attachment 6	Major wholesale customers of Olex
Confidential Attachment 7	Customer rebate calculator
Confidential Attachment 8	Analysis of Olex average rebate
Confidential Attachment 9	Evidence of price negotiations
Confidential Attachment 10	Business Intelligence (BI) report
Confidential Attachment 11	Screenshots of reconciliation
Confidential Attachment 12A	Transaction 90407368
Confidential Attachment 12B	Transaction 90426432
Confidential Attachment 12C	Transaction 90432812
Confidential Attachment 12D	Transaction 90436844
Confidential Attachment 12E	Transaction 90440787
Confidential Attachment 12F	Transaction 90444932
Confidential Attachment 12G	Transaction 90456026
Confidential Attachment 12H	Transaction 90468007
Confidential Attachment 12I	Transaction 90474831
Confidential Attachment 12J	Transaction 90475039
Confidential Attachment 12K	Transaction 90480452
Confidential Attachment 12L	Transaction 90487471

PUBLIC RECORD

Confidential Attachment 13	Explanation of rebate application
Confidential Attachment 14	Explanation of unusual transaction
Confidential Attachment 15	Explanation of “Do Not Use” customer
Confidential Attachment 16	Plant Operating Statement – Lilydale
Confidential Attachment 17	ADC analysis of updated Appendix A6
Confidential Attachment 18	BOM comparison for other products
Confidential Attachment 19	Reconciliation of copper variances
Confidential Attachment 20	Source documents for copper transaction
Confidential Attachment 21	Explanation of metals hedging