

INVESTIGATION No. 219

ALLEGED DUMPING OF POWER TRANSFORMERS EXPORTED FROM CHINA, INDONESIA, KOREA, TAIWAN, THAILAND AND VIETNAM

VISIT REPORT - IMPORTER

ENDEAVOUR ENERGY

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

September 2013

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ABBREVIATIONS

The Act	Customs Act 1901
ADN	Anti-Dumping Notice
Authority	Anti-Dumping Authority
the Commission	Anti-Dumping Commission
the Commissioner	Anti-Dumping Commissioner
Endeavour	Endeavour Energy
MVA	Mega volt amperes
NIP	Non-injurious Price
PAD	Preliminary Affirmative Determination
SEF	Statement of Essential Facts
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
the Minister	the Minister for Home Affairs
USP	Unsuppressed Selling Price
Wilson Transformer Company Pty Ltd	Wilson Transformers

1 BACKGROUND AND PURPOSE

1.1 The application

On 8 July 2013, Wilson Transformer Company Pty Ltd (Wilson Transformers) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of power transformers exported to Australia from the People's Republic of China (China), the Republic of Indonesia (Indonesia), the Republic of Korea (Korea), Taiwan, Thailand and the Socialist Republic of Vietnam (Vietnam).

Following consideration of the application, the Anti-Dumping Commission (the Commission) initiated an investigation on 29 July 2013. Public notification of initiation of the investigation was published in *The Australian* on 29 July 2013. Further details of this investigation are provided in Anti-Dumping Notice No. 2013/64 which is available at http://www.adcommission.gov.au/cases/EPR219.asp.

There have been no recent dumping investigations relating to power transformers, the last investigation conducted in 1992 by the Anti-Dumping Authority (the Authority) on these same goods exported to Australia from Austria. Initiated following an application lodged by the Australian Electrical and Electronic Manufacturer's Association requesting that a dumping duty notice be published, the case delivered a negative finding (Anti-Dumping Authority Report No. 74 refers). Subsequent to this investigation, an inquiry was conducted and a report produced by the Authority on tender dumping in Australia. The report examined issues concerning the effects the extended duration of the tender process would have on the effectiveness of the administering of Australia's anti-dumping system. This is the first investigation that Endeavour Energy (here after referred to as Endeavour) has been involved in as an interested party.

There are no current anti-dumping or countervailing measures on power transformers exported to Australia from China, Indonesia, Korea, Taiwan, Thailand or Vietnam.

1.2 Background to meeting

Following the initiation of the investigation, a search of Customs and Border Protection's import database indicated that Endeavour Energy (hereafter referred to as Endeavour) imported the goods under investigation during 1 July 2010 to 30 June 2013 (the investigation period).

Endeavour provided a response to Part A of the importer questionnaire, providing details regarding the company and overseas supplier information. A copy of Part A (company and supplier details) of Endeavour importer questionnaire response is at **Confidential Attachment GEN 1**.

Prior to the visit the Commission were aware that Endeavour is a 100% New South Wales state-owned energy corporation and that its GUC-associated commercial operations

primarily related to procurement for their own operational end-use¹. The Commission however was unclear as to whether Endeavour was an importer of GUC since only one importation of the GUC was identified during the investigation period.

After discussions with these entities, we ascertained that:

- Endeavour has two overseas suppliers that it regularly imports power transformers from; and
- Endeavour purchases power transformers from various Australian suppliers.

Through discussions with the representatives present at the meeting it was clarified that Endeavour Energy's commercial operations pertained to both procurement and importation in relation to the GUC.

1.3 Purpose of visit

The purpose of the visit was to:

- confirm that Endeavour is an end user and clarify if it is an importer of power transformers (as attributed to it within the commercial database), and obtain information to assist in establishing the identity of the exporter(s) and suppliers of the GUC;
- verify information on imports of power transformers to assist in the determination of export prices;
- verify information on purchases of power transformers to assist in the determination of export prices
- establish whether the purchases of power transformers were arms-length transactions;
- establish post-exportation costs, where relevant;
- obtain general information on power transformers pertaining to the Australian market and the end to end procurement processes undertaken by Endeavour in relation to the acquisition of the GUC; and
- provide the company with an opportunity to discuss any issues it believed relevant to the investigation.

¹ Endeavour Energy Annual Performance Report 2011-12

1.4 Meeting details

Company	Endeavour Energy	
Address	51 Huntingwood Drive, Huntingwood NSW 2148	
Telephone no.	02 9853 6433	
Fax no.	02 9853 6414	

The following were present at various stages of the meetings.

Endeavour	Franz Schlechta, Manager Procurement & Logistics	
	Arun Kumar, Manager Strategic Procurement Category Management	
the Commission	Edward Macgregor , Supervisor Operations 1	
	Anthea Hung, Supervisor Operations 3	

1.5 Investigation process and timeframes

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

- The investigation period is 1 July 2010 to 30 June 2013.
- The injury analysis period is from 1 July 2008 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 (27 September 2013) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

The Commission will not make 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.

 The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 18 November 2013, 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 31 December 2013, unless an extension to the SEF is approved by the Minister.

1.6 Visit report

The Commission advised Endeavour that:

- a 'For Official Use Only2' report on the visit will be prepared;
- Endeavour would be given an opportunity to review the visit report for accuracy; and
- a public record version of this visit report would then be prepared in consultation with Endeavour and placed on the Public Record for the investigation.

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² Which replaces the previously used security classification of "Confidential".

2 THE GOODS

2.1 Description

2.1.1 General Description

The goods the subject of the application (the goods) is power transformers. The goods are described as:

liquid dielectric power transformers with power ratings of equal to or greater than 10 MVA (mega volt amperes) and a voltage rating of less than 500kV (kilo volts) whether assembled or unassembled, complete or incomplete

In this report the goods are referred to as power transformers.

Incomplete power transformers are subassemblies consisting of the active part and any other parts attached to, imported with or invoiced with the active parts of power transformers. The active part of a power transformer consists of one or more of the following when attached to, or otherwise assembled with, one another:

- the steel core;
- the windings;
- electrical insulation between the windings; and
- the mechanical frame.

This product definition includes step-up transformers, step-down transformers, autotransformers, interconnection transformers, voltage regulator transformers, rectifier transformers, traction transformers, trackside transformers and power rectifier transformers.

2.1.2 Exclusion of certain goods from investigation

Goods excluded from this application are gas and dry power transformers, and distribution transformers.

The Commission considers that the goods covered by the investigation do not include distribution transformers.

2.2 Tariff classification

The application states that power transformers are classified to subheading 8504.23.00 (statistical codes 26 and 41) to Schedule 3 of the *Customs Tariff Act 1995*. The general rate of duty is currently 5% and applies to power transformers imported from China, Korea, and Taiwan. Indonesia, Thailand and Vietnam are subject to the ASEAN-Australia-New Zealand free trade agreement and the rate for power transformers from these countries is free.

The Commission notes that in describing the goods the applicant incorrectly refers to tariff subheading 8405.23.00, but when nominating the tariff classification of the goods correctly refers to tariff subheading 8504.23.00.

The Australian Customs and Border Protection Service's (Service) Tariff Policy and Implementation Branch confirmed that the correct tariff subheading for power transformers with a power handling capacity exceeding 10 MVA is 8504.23.00. The tariff subheading for power transformers with a power handling capacity above 0.65 MVA up to and equal to 10 MVA is 8504.22.00. It also advised that these classifications apply whether the power transformers are assembled or disassembled and also includes incomplete articles, assembled or disassembled.

2.3 Like goods

Endeavour did not express any particular views or concerns regarding the description of like goods outlined in the application, nor did they state any objection to the Commission's approach towards the definition and investigation of the goods.

General comments were made by Endeavour regarding the end use of all power transformers whereby they were of the opinion that power transformers ultimately have the same function of providing power. However, they did clarify that power transformers are specific to the power substation for which they are designed and that power transformers of different specification are non-substitutable.

In summary, the discussion with Endeavour representatives inferred that there are no distinguishable differences between the goods and like goods as set out in the application. Rather, the comparison of like goods should be determined by the power transformer's technical specifications.

3 COMPANY DETAILS

3.1 Company background

Endeavour is a an energy corporation wholly owned by the New South Wales government, formerly trading as 'Integral Energy', which supplies electricity to both residential areas and businesses via an electricity distribution network covering Sydney's Greater West, the Illawarra and South Coast, the Blue Mountains and the Southern Highlands.

The Commission understands that Endeavour's network spans 24,500 square kilometres and is made up of over 170 major substations, 315,000 power poles and 28,000 smaller substations. Each substation requires power transformers for the distribution of electricity through the network.

Endeavour is governed by a Board of Directors and being a State Owned Corporation (SOC) delivers its programs and services as approved by the Australian Energy Regulator.

3.2 Commercial Operations

Endeavour confirmed that it does not have any subsidiaries, affiliates or partner organisations.

All procurement and importation activities relating to power transformers are managed by its internal procurement and logistics, and strategic procurement category management sections which engage directly in end-to-end asset acquisition that includes:

- Analysis of asset needs specific to project requirements, power transformer design and procurement planning;
- Approaches to market, tender evaluation and supplier selection; and
- Project-specific supply contracting with selected suppliers for delivery, installation, testing and quality assurance of assets pursuant to project requirements;

3.3 Accounting structure and details of accounting systems

No information was provided by Endeavour regarding their accounting structure and accounting systems.

3.4 Relationship with suppliers and customers

3.4.1 Suppliers

As previously discussed, Endeavour is a 100% SOC with no affiliated companies.

The visit team found no evidence to suggest that contractual relationships Endeavour enters into with its local and overseas suppliers with respect to the purchase of the goods were not conducted at arms' length.

3.4.2 Customers

Endeavour is an end-user of the goods whether they import the goods directly from the overseas supplier or source from local suppliers. No further work is done to the goods nor is it sold to other parties. Endeavour therefore has no customer relationships.

4 IMPORTS/PURCHASES

4.1 Clarification of import/purchase arrangements

Based on information provided by Endeavour to the Commission prior to the visit, the Commission was of the understanding that Endeavour had only one importation of the goods during the investigation period from overseas supplier, importation contained two power transformer units.

Prior to the visit, Endeavour additionally provided the Commission with a summary listing of all purchases of the GUC which indicated, inter alia, that Endeavour had conducted transactions for the acquisition of the GUC from two companies – [supplier details]

Discussions with Endeavour clarified that:

•	Endeavour energy had procured the GUC from two overseas suppliers – during the period of investigation
	during the period of investigation
•	
	[supplier identification]; and
•	All asset acquisitions pursuant to which GUC were supplied by
	were made pursuant to formal procurement processes and are
	standardised in terms of contract management and project delivery.

On this basis, Endeavour asserted, and the Visit team accepts, that the data the Commission initially gathered from the Customs and Border Protection import database incorrectly reflects the total number of transactions pursuant to which goods were exported to Australia by Endeavours overseas suppliers, and sold to Endeavour.

On this basis, the Visit team considers that the import database is not reliable source of data in relation to Endeavour's procurement of the goods from and for the purposes of the investigation.

Regarding their procurement arrangements with their overseas supplier Endeavour confirmed that they have no direct involvement in the importation process and procure the goods on the basis of contractual terms of supply which specify supply on a delivered and fully installed 'turn-key' basis.

4.2 Procurement Process

4.2.1 General

To assist the Commission's understanding of the procedural framework under which Endeavour engages with the market for the supply of the GUC in accordance with the relevant regulatory framework, Endeavour referred the Commission to its internal supply management procedural policy (*Endeavour Energy Company Procedure GSU 002, Amendment No. 14*) relating to tendering which, inter alia sets out the process to be

followed in calling and evaluating tenders for the procurement of goods and/or services. A copy of this document provided following the visit, is attached as **confidential** attachment PROC 1

4.2.2 Tender process

Endeavour advised that prior to late 2010, in accordance with its internal supply management policies, and related NSW Government compliance requirements, procurements of the GUC was provided via;

- Pre-qualified selected tenders; and
- Open market tenders

Pre-qualified tenders

Endeavour summarised the pre-qualified tender process as follows:

- Endeavour approaches the open market (via electronic procurement portal, *TenderLink*) seeking expressions of interest (EOI) from potential suppliers in relation to specified qualitative and quantitative asset needs;
- EOI are received and evaluated against specified requirements and selection of compliant suppliers;
- Endeavour develops supplier panels under formal panel contracts under the terms of which selected tenders are put to the panel;
- Requests for Tender (RFTs) are put to the panel suppliers in relation to particular unit/project asset requirements and responses evaluated by Endeavour; and
- Individual contracting for supply of assets with selected panel supplier/s pursuant to the specifications under the RFT.

Endeavour advised that, up to late 2010 it had standing panel supply contract in place with the following suppliers:

[supplier details redacted]

Endeavour advised that the last RFT (number 1353) was submitted to the panel on 15 December 2010, for the supply of 132/33kV 60MVA Power Transformers.

Endeavour provided the Commission with a complete copy of **RFT** which set out, inter alia, the qualitative and quantitative requirements against which tenders from panel suppliers would be evaluated against the following considerations (not in order of precedence):

- (a) Conformance to technical specification
- (b) Conformance to commercial requirements
- (c) Ability to meet delivery & OH&S requirements and performance standards; and

(d) Total cost of ownership

Endeavour advised that, **[supplier]** was selected pursuant to **RFT**, and contract for supply executed, pursuant to which supply of the above units (two orders comprising a total of units) was provided to Endeavour during the period of investigation.

Tender document for RFT is provided as confidential attachment RFT 1

4.2.2.2 Open market tender process

Endeavour advised that since the expiration of the panel contract at the end of 2010 it has moved to an open market tender process for procuring power transformers.

This process involves publication of a public request for tender (RFT) on *TenderLink* which communicates to the market, inter alia, the qualitative and quantitative specifications of the GUC required.

Potential suppliers are provided between six to ten weeks to develop and submit tenders.

Interested parties submit tenders that detail how they can deliver all the required specificities listed in the tender. This includes but is not limited to criteria such as:

- Technical specifications;
- Terms and conditions;
- Pricing; and
- Demonstrated capability.

Tenders are evaluated by Endeavour over a six to twelve month period from which suitable tenders are shortlisted and final offers submitted to Endeavour by the applicants.

With reference to Endeavour's internal tender policy (referred to above at 4.2.1) the Commission understands that procurements of assets over the threshold value of \$500,000 are subject to internal review and approval prior to the execution of contracts for supply undertaken by the company's financial delegate

Approval to contract must be granted by the financial delegate for such procurements prior to Endeavour being able to negotiate and enter contracts with the designated supplier.

Endeavour Energy Company Procedure GSU 002 outlines the criteria that the RFT must satisfy in order for the tender to be considered. The criteria are:

- scope of the goods and services to be provided including any deliverables;
- relevant technical specification or standards or drawings or manufacturer's part number;

- service levels or performance measures, or delivery milestones, or volumes, or required delivery date(s) or other standards (as appropriate) against which the contractor's performance will be measured;
- where the request document or form of agreement that accompanies the request document does not adequately address the commercial consequences of an engagement, the relevant information to mitigate any commercial risk must be included in the Specification; and
- The requirement must be expressed in generic terms to maximise the competition, that is, requirements should be specified rather than prescribed. The complexity of the required product or service and the scale of the procurement should be taken into account when determining the extent to which a requirement should be specified.³

Also outlined in the document are guidelines for tender evaluation. The document states that evaluation is completed using the relevant approved company forms with specific criteria and weightings. It is also noted that the Evaluation Team must agree upon the basis for which they will make their decision.



[Discussion of tender evaluation policies and procedures]

Following the visit, Endeavour provided the Commission with a complete copy of two RFT documents as illustrative examples of open market tender processes:

- **RFT** seeking tenders for the supply and delivery of 15 MVA and 35 MVA; and 33/11kV and 66/11kV units; and
- **RFT** seeking tenders for the design, manufacture, testing, delivery, erection and site testing of 33/11kv 25mva units.

These documents are attached as confidential attachments RFT 2 and 3 respectively

³ Endeavour Energy Company Procedure GSU 002, Amendment No. 14, p.9

RFT documentation sets out, inter alia, that tenders will be evaluated to identify those which comply with the requirements of the RFT, pursuant to the following criteria of evaluation:

- Conformance to technical Specification;
- Technical;
- Meets OH&S requirements; and
- Total lifecycle cost.

RFT lists the evaluation criteria is marginally different terms as follows in summary:

- Compliance with specification and technical requirements of the tender;
- Evidence of contractors ability to comply with operational requirements of the tender;
- Delivery schedule;
- Completed and signed form of tender; and
- Compliance with commercial terms

Endeavour advised the Commission that RFT and and RFT are representative examples of the RFT documentation put to the open market for the supply of the GUC and, specifically, the standardised processes and requirements related to the evaluation criterion against which tenders are assessed, of which project costing is a composite consideration.

Endeavour did not wish to comment any further on evaluation methods and declined to provide the Commission with copies of evaluation reports or formal documentation relating to the evaluation of tenders on the grounds of commercial confidentiality.

Given the absence of material evidence to demonstrate the precedence given to criteria of evaluation the visit team were unable to dispute or support the applicant's claim that price is the primary consideration against which tenders are evaluated and contracts for supply won by competing tenderers.

4.2.3 Contract process

Endeavour advised the visit team that contractual supply agreements are executed under standard form contracts. A copy of the standard form supply contract utilised by Endeavour was provided with copy of RFT provided to the Commission by Endeavour. This document is attached as **confidential attachment RFT 2(b)**

Endeavour advised that supply contracts typically are executed for a standard period of three years with an option for extension of the contract for a further two periods of one year by mutual agreement, totalling a possible five year termed contract.

Endeavour advised that a master supply contract is executed for each project for which the GUC are procured and that the number of units required is determined by specific project requirements.

The contract is drawn up following the completion of the tender process and reflects the terms and conditions as agreed upon in the RFT.

[commercial contracting

arrangements]. Price adjustments based on a price variation methodology calculated by the supplier are also written into the contract to take into account fluctuations in price of raw materials over the course of the project.

Payment terms are set according to the three project stages – manufacture, delivery and installation. The completion of each stage is defined as a milestone and is accompanied by a purchase order. Final payment is made at the project's practical completion i.e. the power transformer is successfully installed on-site.

4.2.4 Supply process

All of Endeavour's procurements of the goods are supplied on a delivered and installed basis. This includes transformer oil and any additional parts. Hence Endeavour does not bear responsibility for any of the importation expenses, all of which are incurred by the supplier and absorbed into the supply price as negotiated under contract between the parties.

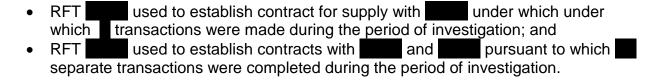
Endeavour confirmed that there is also an agreed warranty period as per the terms of the contract. Any maintenance or replacement costs pursuant to warranty claims on the assets during this period are absorbed by the supplier.

During the manufacturing process, Endeavour's in-house engineers conduct three visits to the factory. The purpose of these visits is to verify that the factories are accredited, and to assess and confirm that the quality of the final products is satisfactory prior to shipping. Manufacturing and other product-related issues are identified and rectified during this time.

4.3 Verification of imports

Endeavour submitted that it had a total of importations of the goods during the investigation period.

As referred above, the visit team were provided with



These documents are provided at **confidential attachment RFT1** and **RFT3** respectively.

Detailed information on the specifications required for the project was enclosed in both RFTs, however supplier responses and evaluation methods used to review and select the winning tender were not provided.

A purchase order (number) was also provided by Endeavour for the one import that the Commission initially extrapolated from the database. This was to support the sales route spreadsheet demonstrating the allocation of relevant costs to import and sell the goods that the Commission requested Endeavour complete prior the visit. The visit team was able to reconcile the total value of the purchase order (expressed in AUD) with the total cost for the asset as reflected in the sales route spreadsheet. This document

Following the visit the team requested, and Endeavour provided, proof of payment from Endeavour to

Since Endeavour purchases all units on a fully installed basis with contractual value paid per milestone and final payment made to the supplier upon practical completion of the project, reconciliation of documents to verify the costs to import and sell could not be completed.

The purchase order and proof of payment is at **confidential attachment IMP 1**.

Endeavour declined to provide the following documents requested by the visit team to assist with verification:

- Tender evaluations with respect of tender processes that led to contractual procurement of the goods from overseas suppliers;
- Commercial contracts executed with and and [suppliers];
- Evidence of milestone payments and expenses associated with individual projects during the investigation period.

4.4 Forward orders

Endeavour provided the visit team with a summary listing of 2 individual procurements that were contracted during the investigation period and are currently in production. Both procurements are supplied by **[supplier]** and consist of 2 transformer units each. The delivery date and entry into Australia of both forward orders are projected to be in January and February 2014 (after the period of Investigation).

The visit team also noted that the procurement projected for arrival in Australia in February 2014 is for 25MVA/33kV power transformer units.

5 AUSTRALIAN MARKET

Endeavour declined to comment on the environment and dynamics of the Australian power transformers market aside from generally categorising the current market environment with respect to the tender for supply of the GUC as 'competitive'.

Endeavour also confirmed, as noted above at 4.2.2.1 that the applicant was a member of supplier panel utilised by Endeavour for procurement of the GUC before Endeavour transitioned to open tender procurement processes.

6 GENERAL COMMENTS

As reflected in the above, Endeavour clearly advised the visit team at the outset of the meeting that whilst it was willing to assist the Commission with general enquiries regarding its asset acquisition processes and procedures and its utilisation of the GUC, it was not prepared to divulge commercially sensitive material relating to procurements of the GUC.

In summary, Endeavour;

- cooperated with enquiries regarding the processes and procedures it implements in relation to the acquisition of the GUC from its overseas suppliers and provided source examples of its procurement policies and examples of tender material put to market for the procurement of the GUC, pursuant to which contracts for supply were won by its overseas suppliers and individual transactions executed; but
- declined to provide the Commission with material documenting the process by which tenders are evaluated against the RFT requirements and the material considerations which influenced the selection of particular tenders as most suitable the Commission is unable to determine whether or not price is the primary consideration in tender evaluation and asset acquisition.

On the basis of limited disclosure provided by Endeavour the Commission will rely on all available information in its consideration of material injury and causation including, but not limited to, evidence provided by the applicant to support the assertion that, where relevant technical criteria of the asset need are satisfied, price is the primary consideration influencing asset acquisition in the Australian end-user market.

7 RECOMMENDATIONS

In the absence of information regarding the arrangements regarding the post-importation domestic handling and delivery of the GUC exported to Australian by [suppliers] , the visit team is of the opinion that, there is insufficient information to conclude that Endeavour Energy has directly imported the GUC from its suppliers in and [countries of export] ,
Subject to further inquiries in relation to these exporters, we recommend that the export price for power transformers imported by Endeavour from and and cannot be established under s.269TAB(1)(c) or s.269 TAB(3) of the Customs Act 1901.

8 APPENDICES AND ATTACHMENTS

Confidential Appendix PROC 1	
Confidential attachment RFT1	
Confidential attachment RFT2	
Confidential attachment RFT2 (b)	
Confidential attachment RFT 3	
Confidential attachment IMP 1	