

DUMPING AND COUNTERVAILING DUTIES ACT 1988

DUMPING APPLICATION




NON-CONFIDENTIAL INITIATION REPORT

WASHING MACHINES FROM KOREA

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ABBREVIATIONS

The following abbreviations are used in this Report:

Act (the)	Dumping and Countervailing Duties Act 1988
Amendment Act (the)	Dumping and Countervailing Duties Amendment Act 1994
Anti-Dumping Agreement (the Agreement)	WTO Agreement on Implementation of Article VI of the GATT 1994
Chief Executive	Chief Executive of the Ministry of Economic Development
CIF	Cost, Insurance and Freight
EBIT	Earnings Before Interest and Tax
F&P	Fisher & Paykel Ltd
FOB	Free on Board
INFOS	Information for Official Statistics
LDC	Less Developed Countries
LG	LG Electronics
LLDC	Least Developed Countries
Ministry (the)	Ministry of Economic Development
	
Pac	Forum Island Members of the South Pacific Regional Trade and Economic Co-operation Agreement
Samsung	Samsung Electronics
VFD	Value for Duty
WTO	World Trade Organisation
Indicates confidential information	

1. PROCEEDINGS

1.1 PROCEEDINGS

1.1.1 On 7 November 2000, the Ministry of Economic Development accepted a properly documented application from Fisher & Paykel Limited (F&P), alleging that imports of washing machines from Korea were being dumped and by reason thereof causing and threatening to cause material injury to the New Zealand industry.

1.1.2 In accordance with section 10 of the Dumping and Countervailing Duties Act 1988 (hereinafter also referred to as “the Act”), the Chief Executive of the Ministry of Economic Development (“Chief Executive”) may, on receipt of an application from the industry, initiate an investigation to determine both the existence and effect of any alleged dumping of any goods on being satisfied that sufficient evidence has been provided that:

- (a) the goods imported or intended to be imported into New Zealand are being dumped; and
- (b) by reason thereof material injury to an industry has been or is being caused or is threatened or the establishment of an industry has been or is being materially retarded.

1.1.3 In considering an application, the Chief Executive is required to be satisfied that there is evidence going beyond mere assertion and of a nature and extent that indicates a likelihood of dumping and resultant material injury, and requiring investigation. The evidence is to be scrutinised with due scepticism, bearing in mind the commercial context, and the Chief Executive is to be satisfied of the sufficiency of the evidence, not of dumping or material injury.

Basis for the Application

1.1.4 F&P claims that as a result of the alleged dumping, material injury is resulting from:

- increased volume of the allegedly dumped imports;
- price undercutting, price depression, and price suppression,

and is resulting in:

- decline in market share; and
- decline in profits;

and will result in:

- declines in output and sales;
- decline in return on investments; and
- possible adverse effect on employment.

- 1.1.5 F&P has stated in its application that the material injury resulting from the importation of allegedly dumped washing machines commenced in the April-July 2000 period.
- 1.1.6 F&P has requested the imposition of provisional anti-dumping duties to prevent material injury being caused during the investigation. Provisional anti-dumping duties may be imposed no earlier than 60 days after initiation of an investigation if the Minister has reasonable cause to believe that the imported goods are being dumped and are causing or threatening to cause material injury to an industry, and the Minister is satisfied that action is necessary to prevent material injury being caused during the period of investigation.
- 1.1.7 It should be noted that the Ministry approaches investigations on the basis that injury and threat of injury are alternatives, i.e. an industry is either injured or threatened with injury, but both cannot apply at the same time.

1.2 INTERESTED PARTIES

New Zealand Industry

- 1.2.1 The application was lodged by F&P, the only producer of household automatic washing machines in New Zealand. F&P is a wholly owned subsidiary of the listed company Fisher & Paykel Industries Ltd.

Importers and Exporters

Exporters

- 1.2.2 F&P has identified the following exporters from Korea as allegedly dumping washing machines:

LG Electronics (LG); and
Samsung Electronics (Samsung).

- 1.2.3 Available Customs data for the year ended 31 October 2000 lists the following as suppliers of washing machines from Korea:

Dae Hyun Agriculture & Fisheries Co Ltd
Daewoo Corp
Daewoo Electronics Corp Ltd
Dong Nam Co Ltd
Fisher & Paykel Pty Ltd
GAE Asia Ltd
LG Electronic Inc
LG International Corp
Samsung Aust Pty Ltd
Samsung Electronics

Importers

- 1.2.4 F&P states that several companies import automatic washing machines under different brand names. F&P believes the following companies are importers:

Baigent & Daughters;

Email New Zealand Ltd;
Radiola Corporation; and
LM Rankine Trading Corporation Ltd.

- 1.2.5 Customs data shows the following as importers of washing machines from Korea:

Email Appliances (NZ) Ltd
Eurolife Ltd
Fisher & Paykel Ltd*
Hagemeyer NZ Ltd
LM Rankine Trading Co Ltd
Radiola Corporation Ltd
Sanford South Island Ltd
South East Resources Ltd

* As noted in Section 4.4 of this Report, F&P has imported sample models from Korea.

- 1.2.6 Due to the number of suppliers and importers identified, should an investigation be initiated it is intended to specifically investigate those suppliers (and their associated importers) representing the top 99 percent of imports (by volume) of the subject goods over the year ended October 2000. In making this calculation the various Samsung, LG and Daewoo companies listed in the NZCS data have been treated as one entity. All other suppliers and importers will have the opportunity to provide submissions but these will not be directly solicited.

- 1.2.7 Suppliers and importers falling into the above category are as follows:

Exporters

Samsung
LG
Daewoo

Importers

Radiola Corporation Ltd
LM Rankine Trading Co Ltd
Email Appliances (NZ) Ltd
Eurolife Ltd

- 1.2.8 Any investigation will need to establish the extent to which the parties listed are importing the goods subject to this application. In addition, the investigation will need to establish whether such goods have any degree of manufacture in the country of export, or whether they are merely trans-shipped.

1.3 **IMPORTED GOODS**

- 1.3.1 The goods which are the subject of the application, hereinafter referred to as washing machines or "subject goods", are:

Household fully automatic washing machines with a dry linen capacity not exceeding 10kg, the capacity determined by standard AS/NZS2040.

1.3.2 The allegedly dumped goods consist of both top loading and front loading models. F&P refers to capacity measures for washing machines in terms of standard AS/NZ2040, which requires machines to meet a number of wash performance and energy consumption standards at the claimed capacity.

1.3.3 The New Zealand Customs Service has advised that the washing machines enter under the following tariff classifications:

84.50 Household of laundry-type washing machines which both wash and dry:

- Machines, each of a dry linen capacity not exceeding 10kg:

8450.11 -- Fully-automatic machines:

8450.11.01 --- Household

.... Of a dry linen capacity not exceeding 6kg:

02H Top loading machines

05B Front loading machines

.... Other:

07J Top loading machines

11G Front loading machines

1.3.4 Applicable duty rates are:

Normal	7
Australia	Free
Canada	3
LDC	5.5
LLDC	Free
Pac	Free

1.3.5 In this report, unless otherwise stated, years are March years and dollars values are NZ\$. Year to date (YTD) figures refer to the period April to July 2000. In tables, column totals may differ from individual figures because of rounding.

1.3.6 The period for considering claims of dumping is from 1 November 1999 to 31 October 2000. This was the period for which Customs data as close as practicable to the date of initiation was available.

1.3.7 The applicant claims that injury has occurred in the April to July 2000 period and that injury is also threatened. The period over which injury will be considered is 1 April 1997 to 30 September 2000, but may include more recent information if available. The application also refers to threat of injury, and threat will be evaluated if actual material injury is not established. In evaluating threat of material injury the investigating team would consider information relating to the likely effect of the allegedly dumped imports in addition to historical financial information.

- 1.3.8 It should be noted that the inclusion of any information in this report does not indicate that the Ministry necessarily accepts that information or any conclusions arising from it. Any final determination of whether or not goods are dumped and causing injury can be made only after a full investigation carried out in accordance with the Act.

2. NEW ZEALAND INDUSTRY

Section 3A provides the definition of “industry”:

3A. Meaning of “industry”—For the purposes of this Act, the term ‘industry’, in relation to any goods, means—

- (a) The New Zealand producers of like goods; or
- (b) Such New Zealand producers of like goods whose collective output constitutes a major proportion of the New Zealand production of like goods.

“Like goods” is defined in section 3 of the Act:

“Like goods”, in relation to any goods, means—

- (a) Other goods that are like those goods in all respects; or
- (b) In the absence of goods referred to in paragraph (a) of this definition, goods which have characteristics closely resembling those goods:

2.1 LIKE GOODS

2.1.1 In order to establish the existence and extent of the New Zealand industry for the purposes of an investigation into injury, and having identified the subject goods, it is necessary to determine whether there are New Zealand producers of goods which are like those goods in all respects, and if not, whether there are New Zealand producers of other goods which have characteristics closely resembling the subject goods.

2.1.2 The subject goods have been identified in section 1.3 of this Report as:

Household fully automatic washing machines with a dry linen capacity not exceeding 10kg, the capacity determined by standard AS/NZS2040.

New Zealand Production

2.1.3 F&P produces top loading washing machines for the New Zealand market in 5.5kg and 7.5kg sizes. F&P does not produce front loading models. F&P considers that its top loading models are like goods to both top loading and front loading models imported from Korea and presents the following information:

Imported Washing Machines

2.1.4 F&P advises that Radiola imports top loading Samsung brand machines from Samsung and Rankine imports top loading and front loading LG brand machines from LG. F&P understands that Baigent imports Advanced brand washing machines from LG and that Email imports Westinghouse brand machines from LG.

Like Goods Considerations

- 2.1.5 In deciding like goods issues the Ministry takes into account the following considerations:
- a. Physical characteristics, which covers appearance, size and dimensions, components, production methods and technology.
 - b. Function/usage. This covers consumer perceptions/expectations, end uses, and will lead to any conclusions on the issue of substitutability where relevant.
 - c. Pricing structures.
 - d. Marketing issues such as distribution channels and customers advertising.
 - e. Other. This can include tariff classification if applicable, and any other matters which could be applicable in the circumstances.
- 2.1.6 This framework will be used to consider what goods produced in New Zealand are like goods to the allegedly dumped imports.

Physical Characteristics

- 2.1.7 Apart from some styling differences, New Zealand and Korean top loading washing machines present the same basic appearance. Front loading machines differ significantly in appearance from New Zealand top loading machines in terms of placement of access door and controls.
- 2.1.8 F&P notes that the external dimensions of the locally produced and imported washing machines differ slightly. Machines from both sources are offered in a range of capacities.
- 2.1.9 F&P states that the production methods used for top loading and front loading machines “are similar as the machines use similar components (motors, tubs (a drum on its side) and cabinets”.
- 2.1.10 New Zealand washing machines contain a central agitator. F&P states that “most top loading machines do have some type of central agitator” or in its absence a pump [or punch] to force water up from the bottom of the bowl. F&P notes that some Korean models do not have a central agitator and that in some models with central agitators, the agitator is not full size. F&P comments that “some top loading machines have a rotating device at the bottom of the bowl to provide the means to move the water to aid the cleaning of articles”.
- 2.1.11 F&P notes that front loading machines do not have a central agitator. Controls on New Zealand and Korean washing machines allow wash cycle selections and some models of both top loading and front loading machines have an option for a fast wash.

Function and Usage

- 2.1.12 F&P's top loading machines have the same end-use, namely washing of clothes for households, as the imported top loading and front loading machines.
- 2.1.13 F&P considers that front loading machines are substitutable with its top loading machines. The company is preparing to release a top loading machine which replicates the features of a front loading machines and F&P considers this development "is a strong indication of the substitutability of these machines".
- 2.1.14 F&P identifies no differences between consumer perceptions of New Zealand and Korean washing machines. F&P states that "consumer preferences indicate that top loading machines are more flexible [than front loading machines] because items can be added to the machine once the washing cycle has commenced. Top loading machines have a shorter washing cycle than front loading machines. F&P considers that front loading machines may use less water, depending on user behaviour, and less laundry powder than top loading machines.
- 2.1.15 F&P explains that clothes are immersed in water in top loading machines whereas in a front loading machines the clothes are rotated through the water as the drum revolves. F&P states that "there is a consumer perception that front loading machines have a gentle washing action, consume less water and are more eco-friendly". However, F&P points to Consumers Institute testing which shows that top loading machines have wash programmes that are as gentle as front loading machines.

Pricing Structures

- 2.1.16 F&P notes that there is a perception that front loading machines are more expensive than top loading machines. F&P considers that this perception may be due European machines being distributed through specialist outlets for many years prior to The Warehouse securing distribution of the AEG brand.
- 2.1.17 F&P provided retail price comparisons for a number of machines, including for LG machines which are sold in both front loading and top loading versions. LG's 6.5kg and 8kg top loading machines are sold at the same prices respectively as LG's lower and higher-priced 7kg models. F&P observes that the retail pricing of imported Korean front loading machines is similar to retail prices of F&P top loading machines. F&P considers that "the proximity of the retail pricing demonstrates that price is not a barrier to substitutability".

Marketing Issues

- 2.1.18 F&P observes that top loading machines and front loading washing machines are sold through the same retail outlets and are often placed together on the retail floor. F&P provided copies of Consumers Institute tests in which both front loading and top loading machines feature.
- 2.1.19 F&P imports front loading machines from Italy and distributes them through the same retail outlets as its top loading models. F&P also states that "promotional material from retailers includes both types of machines which is

a strong indication that the retailer views a potential buyer of a washing machine making a choice between a top loading machine and a front loading machine". F&P refers to the growth in imports of front loading washing machines (see discussion under Other Causes of Injury), as indicative of the substitutability of the machines.

- 2.1.20 F&P notes that both types of machines are sometimes advertised together.

Other Relevant Matters

- 2.1.21 F&P notes that claimed capacities in Korea are not the same as those used on the New Zealand market due to the use of different standards in each market. F&P states that F&P model sizes 5.5kg, 6.5kg and 7.5kg, "easily rate as 10kg under the Korean standard."

- 2.1.22 Both front loading and top loading washing machines are classified under the same tariff item, but under different statistical keys.

- 2.1.23 F&P considers that:

The imposition of a remedy against a top loading machine and not a front loading machine would result in the remedy failing to address the material injury caused by dumping because the prices of front loading machines from Korea would continue to depress the prices of top loading machines manufactured by F&P. This would only occur if top loading machines were not seen as like goods to front loading machines.

Conclusions Relating to Like Goods

- 2.1.24 The washing machines produced by F&P are not identical to the washing machines imported from Korea.

- 2.1.25 F&P produces only top loading washing machines which, after weighing up similarities and differences in terms of physical characteristics, function and usage, pricing structures, marketing and distribution and tariff classification, have characteristics closely resembling top loading washing machines imported from Korea.

- 2.1.26 F&P's top loading machines possess similarities with imported Korean front loading machines in terms of production methods, many components, function and usage, pricing structures, marketing and distribution, and tariff classification. F&P's top loading machines differ from imported Korean front loading machines in terms of appearance, some internal components and some aspects of consumer operation and perception. After weighing up these similarities and differences, the Ministry considers that F&P's top loading machines have characteristics closely resembling front loading washing machines imported from Korea.

- 2.1.27 On the basis of the information available, for initiation purposes, the Ministry considers that the washing machines produced by F&P, while not identical to the subject goods, have characteristics closely resembling the subject goods and are therefore like goods to the subject goods.

2.2 NEW ZEALAND INDUSTRY

2.2.1 An investigation may not be initiated unless the Chief Executive is satisfied that the requirements of section 10(3) of the Act are met. These requirements are that the collective output of those New Zealand producers who have, in writing, expressed support for the application constitutes:

- (a) Twenty-five percent or more of the total New Zealand production of like goods produced for domestic consumption (assessed during the most recent representative period, being not less than six months); and
- (b) More than 50 percent of the total production of like goods produced for domestic consumption (as so assessed) by those New Zealand producers who have, in writing, expressed support for or opposition to the application.

2.2.2 The application was submitted by Fisher & Paykel Limited, the sole New Zealand producer of household automatic washing machines. The Ministry is aware that there is only one manufacturer of household automatic washing machines in New Zealand and research supports this fact. The applicant has advised that production closely follows sales. The applicant has provided sales volume and value information, representing its production, for the years ended March 1998 to 2000, and has provided forecast figures for the year ending March 2001.

2.3 IMPORTS OF WASHING MACHINES

2.3.1 The applicant provided INFOS data from Statistics New Zealand for the tariff items and statistical keys in section 1.3 above. The following table shows import volumes of washing machines.

Table 2.1: Imports of Washing Machines
(Units)

	1998	1999	2000	4 Months to July 2000
Korea	6	688	5,729	5,813
Other Imports	42,174	39,749	48,054	15,134
Total Imports	42,180	40,437	53,783	20,947

2.3.2 Section 11(1) of the Act provides that where the Minister is satisfied in respect of some or all of the goods under investigation, that there is insufficient evidence of dumping or injury to justify proceeding with the investigation then the investigation shall be terminated. Section 11(2) of the Act provides that evidence of dumping shall be regarded as insufficient if the volume of imports of dumped goods, expressed as a percentage of total imports of like goods into New Zealand, is negligible, having regard to New Zealand's obligations as a party to the Anti-Dumping Agreement. The Agreement deals with the negligibility of dumped imports under Article 5:8 as follows:

5.8 An application under paragraph 1 shall be rejected and an investigation shall be terminated promptly as soon as the authorities concerned are satisfied that there is not sufficient evidence of either dumping or of injury to justify proceeding with the case. There shall be immediate termination in

cases where the authorities determine that the margin of dumping is *de minimis*, or that the volume of dumped imports, actual or potential, or the injury, is negligible. The margin of dumping shall be considered to be *de minimis* if this margin is less than 2 per cent, expressed as a percentage of the export price. The volume of dumped imports shall normally be regarded as negligible if the volume of dumped imports from a particular country is found to account for less than 3 per cent of imports of the like product in the importing Member, unless countries which individually account for less than 3 per cent of the imports of the like product in the importing Member collectively account for more than 7 per cent of imports of the like product in the importing Member.

2.3.3 The import volume figures in Table 2.1 above show that imports from Korea represented 11 percent of all imports in the year ended March 2000 and 28 percent of all imports in the 4 months to July 2000.

2.3.4 On the basis of this information, imports of the subject goods from Korea are not negligible.

2.4 NEW ZEALAND MARKET

2.4.1 The following table shows the New Zealand market for washing machines and was prepared from Statistics New Zealand INFOS data provided by F&P. Figures for NZ industry sales are for only those washing machines produced in New Zealand.

Table 2.2: New Zealand Market
(Units)

	1998	1999	2000	4 Months to July 2000
Korean Imports	6	688	5,729	5,813
Other Imports	42,174	39,749	48,054	15,134
Total Imports	42,180	40,437	53,783	20,947
NZ Industry Sales				
NZ Market				

3. EVIDENCE OF DUMPING

Section 3(1) of the Act states:

“Dumping”, in relation to goods, means the situation where the export price of goods imported into New Zealand or intended to be imported into New Zealand is less than the normal value of the goods as determined in accordance with the provisions of this Act, and ‘dumped’ has a corresponding meaning.”

3.1 EXPORT PRICES

3.1.1 Export prices are determined in accordance with section 4 of the Act.

3.1.2 F&P advises that it does not have access to actual export prices and has therefore constructed export prices by starting with retail selling prices in New Zealand and making deductions to obtain estimated Korean ex-factory prices.

3.1.3 F&P has provided constructed export prices for two Samsung top loading models (5.5kg and 6.5kg), three LG top loading models (4.5kg, 6.5kg, and 8.5kg), and two LG front loading models (both 7kg). F&P states that it has not endeavoured to calculate export prices for all models of washing machines imported from Korea as it has included only information for purposes of initiation which is reasonably available and is sufficient evidence of dumping.

Retail Prices

3.1.4 F&P has provided recent advertised retail prices in New Zealand for each of the washer models. Copies of various retailers’ catalogues have been provided in support of Samsung 5.5kg prices in August and October 2000 and in support of Samsung 6.5kg prices in October 2000. Goods and services tax has been deducted from the retail selling prices.

3.1.5 Samsung models have increased in price throughout the year. For purposes of initiation, calculations for Samsung models are based on October prices provided by F&P, which are significantly higher than earlier in the year and which, therefore, result in lower dumping margins and a more conservative approach to assessing whether there is sufficient evidence of dumping. Since its application, F&P has provided information showing that the retail price of the Samsung 5.5kg model increased in November 2000. An export price for this latest known price increase has also been calculated by the Ministry.

3.1.6 F&P states that it has extensive knowledge of the costs of distributing imported product in New Zealand. F&P has made deductions from retail selling prices in New Zealand as described below.

Retailer’s Margin

3.1.7 A retailer’s margin of [REDACTED] percent has been allowed for both Samsung and LG. F&P advises that this margin is based on an analysis of the margins taken by [REDACTED], on a sample

of washing machine models sold by [REDACTED] in June and October 2000. F&P provided details of this margin analysis in its application.

Distributor's Warranty

- 3.1.8 An amount of [REDACTED] percent for distributor's warranty costs has been allowed for both Samsung and LG. F&P states that this is the accepted figure for warranty provision in the whiteware business.

Freight from Distributor to Retailer

- 3.1.9 Amounts of [REDACTED] percent and [REDACTED] percent have been allowed for Samsung and LG respectively. F&P has allowed a nominal amount for Samsung, for freight from wharf to distributor, as it states that the Samsung distributor, Noel Leeming, warehouses and ships to its own stores and the cost of freight is therefore covered by the retailer's margin. F&P states that the freight cost for LG is based on its freight costs in Australia, [REDACTED].

- 3.1.10 F&P has deducted more for freight for goods distributed by Rankine as "Rankine appears to have a more expensive overhead and distribution structure".

Distributor's Advertising

- 3.1.11 An amount of [REDACTED] percent has been allowed for advertising for both Samsung and LG. F&P states that it is an industry norm for distributors to contribute [REDACTED] percent towards retail advertising. In addition, F&P states that distributors also advertise the brand generally and support retail promotions which makes up the remainder. F&P considers the amount allowed is probably conservative given the low volume of sales and the need for a certain dollar spend to have an impact.

Distributor's Selling and Administration Overhead

- 3.1.12 Amounts of [REDACTED] percent and [REDACTED] percent have been allowed for Samsung and LG respectively. F&P states that this cost is to cover local (New Zealand) sales representation and administration costs. F&P has made a lower deduction for Samsung as product is received directly by the retailer. F&P states that the figures are based on a conservative view of its known costs.

Distributor's Net Profit

- 3.1.13 An amount of [REDACTED] percent has been allowed for both Samsung and LG models. F&P states that "This is a conservative estimate of the net profit that a distributor would expect to make for their role in the transaction". In support of this estimate, F&P has provided a copy of a report [REDACTED].

Sea Freight Korea to New Zealand

- 3.1.14 F&P states that this is based on known costs for shipment of 40 foot, high cube containers from Korea to New Zealand of US\$[REDACTED]. F&P has calculated the cost per washing machine on the basis of the number of F&P equivalent models that are able to be fitted into this type of container. The

Ministry has made some adjustments to these calculations to ensure they are consistent with the numbers of washing machines per container shown in calculations for port service charges.

Port Service and Customs Charges

- 3.1.15 F&P has calculated port service and Customs charges on the basis of flat fees per container divided by the number of washing machines of each size capacity that is able to be packed into a container.

Insurance

- 3.1.16 An amount for insurance has been allowed at [redacted] percent for both Samsung and LG. F&P states this is based on known costs for a shipment of whiteware (refrigerators) from Korea.

Import Duty

- 3.1.17 An amount for import duty has been allowed at the current rate for imports of the subject goods from Korea of five and a half percent.

Inland Freight to Port of Export

- 3.1.18 An amount of [redacted] percent of ex-factory value has been allowed for freight from the Korean factories to the port of export.

Exchange Rates

- 3.1.19 In its application F&P converted the NZ dollar FOB price to Korean won at the Customs exchange rate effective on 18 September 2000 of 1NZ\$ = 470.07 Korean won. Since then the won has appreciated against the NZ dollar which would have the effect of further reducing the export price in won. For the purposes of initiation the exchange rate at 18 September has been used.

Export Prices

- 3.1.20 The calculation of constructed export prices on the basis set out above is shown in the tables below.

Samsung

- 3.1.21 The following table shows export prices calculated from retail prices in October and November 2000.

Table 3.1: Constructed Export Prices Samsung

<i>Top Loading</i>	Oct	Nov	Oct
Capacity (kg)	5.5	5.5	6.5
Korean Model No.			SEW-80W
NZ Model No.	SW55AP	SW65ASP	SW65ASP
Advertised price	749.95	799.95	949.95
Less: GST (12.5%)	83.33	88.88	105.55
	666.62	711.07	844.40
Less: Retailer's margin ([redacted])	[redacted]		
Invoice price ex-distributor to retailer	[redacted]		
Less: Warranty ([redacted])	[redacted]		

Less: Freight ()			
Less: Advertising ()			
Less: Selling & admin. Overhead ()			
Less: Profit ()			
Landed cost			
Less: Freight to NZ			
Less: Port Service Charges			
Less: Customs charges			
Less: Insurance ()			
Less: Import duty (5.5%)			
FOB (NZ\$)			
Less: Freight to wharf ()			
Ex-Factory Export Price (NZ\$)	368.43	395.64	477.27
Convert @ NZ\$ = 470.07 won (Customs rate @ 18/9/00)	173,190	185,980	224,349

LG Electronics

3.1.22 The following table shows constructed ex-factory export prices of top loading and LG washing models.

Table 3.2: Constructed Export Price LG

<i>Top Loading</i>	4.5	6.5	8.5
Capacity (kg)			
Korean Model No.	WF-J55N	WF-J85B	WF-WS133G
NZ Model No.	WFT452	WFT652	WFT852
Advertised price	749.00	1,099.00	1,299.00
Less: GST (12.5%)	83.22	122.11	144.33
	665.78	976.89	1154.67
Less: Retailer's margin ()			
Invoice price ex-distributor to retailer			
Less: Warranty ()			
Less: Freight ()			
Less: Advertising ()			
Less: Selling & admin. Overhead ()			
Less: Profit ()			
Landed cost			
Less: Freight to NZ			
Less: Customs charges			
Less: Insurance ()			
Less: Import duty (5.5%)			
Less: Freight to wharf ()			
FOB Export Price (NZ\$)	334.66	506.52	603.58
Convert @ NZ\$ = 470.07 won (Customs rate @ 18/9/00)	157,316	238,100	283,724

3.1.23 The following table shows constructed ex-factory export prices of front loading LG washing models.

Table 3.3: Constructed Export Price LG

<i>Front Loading</i>		
Capacity (kg)	7.0	7.0
Korean Model No	WD860R	WD860R
NZ Model No.	WD8050FH	WD1021W
Advertised price	1,029.00	1,249.00
Less: GST (12.5%)	114.33	138.78
	914.67	1110.22
Less: Retailer's margin ()		
Invoice price ex-distributor to retailer		
Less: Warranty ()		
Less: Freight ()		
Less: Advertising ()		
Less: Selling & admin. Overhead ()		
Less: Profit ()		
Landed cost		
Less: Freight to NZ		
Less: Port Service Charges		
Less: Customs charges		
Less: Insurance ()		
Less: Import duty (5.5%)		
Less: Freight to wharf ()		
FOB Export Price (NZ\$)	479.65	588.99
Convert @ NZ\$ = 470.07 won (Customs rate @ 18/9/00)	225,471	276,866

3.1.24 Export prices for the allegedly dumped goods have been calculated by deduction from retail selling prices in New Zealand, being the information reasonably available to the applicant. The Ministry considers that the information on export prices provided by F&P is sufficient for the purposes of initiation.

3.2 NORMAL VALUES

3.2.1 Normal values are determined in accordance with section 5 of the Act.

3.2.2 For most top loading models, F&P has estimated normal values by deducting costs and margins from retail prices in Korea back to ex-factory. F&P has provided normal value information on this basis for one Samsung top loading washing machine model (8kg) and two LG top loading models (8.5kg and 13kg). For another top loading Samsung model and another top loading LG model, F&P has estimated retail prices in Korea and made deductions for costs and margins.

Top Loading Models

Retail Prices

3.2.3 F&P advises it visited a number of appliance retailers in Seoul in May 2000 to gain an understanding of the market prices and margins applicable to

washing machines. F&P advises that retail prices were obtained from the following stores:



3.2.4 F&P states that the retail price used as the base normal value was the most common ticket price seen during the store visits. F&P notes that retail prices for the Samsung models were largely consistent, except for the Samsung WF-80W model and in that case the most competitive price has been used. F&P also states that “Where the price varied we have taken the price seen in [redacted]”. F&P noted prices on Korean catalogues.

3.2.5 F&P states that it has received advice that the Samsung 5.5kg model is not sold on the domestic market in Korea. F&P notes that, [redacted], it has made a nominal deduction of 10 percent from the retail selling price for the 6.5kg model to arrive at an estimated retail selling price for a 5.5kg model.

3.2.6 F&P has also estimated the Korean retail price of LG top loading model WFJ55N on the basis of the relativity between 4.5kg and 6.5kg retail selling prices in New Zealand.

3.2.7 For LG front loading models, in the absence of information on domestic prices of front loading machines, F&P has used the normal value for a top loading machine of similar capacity. For a higher specification model, F&P has adjusted the normal value by the relative difference in retail prices in New Zealand between the relevant front loading models.

Discounts

3.2.8 Store operators reported discounts ranging from [redacted] to [redacted] percent. An amount at the highest level of discount ([redacted] percent) has been allowed for both Samsung and LG.

Korean Value Added Tax

3.2.9 A deduction of 10 percent has made for both Samsung and LG. The Ministry is aware from other investigations involving Korea that a 10 percent value added tax exists in Korea.

Retailer's Margin

3.2.10 An amount of [redacted] percent has been allowed for both Samsung and LG. F&P states this is based on a discussion with a retailer at [redacted] who revealed that it expects to make between [redacted] and [redacted] percent on washing machines. F&P notes that the retailer advised that the full [redacted] percent would only be achieved if the full ticket price was gained and the margin would revert to [redacted] percent if the floor discount amounted to [redacted] percent. Margins revealed to F&P by other store operators ranged from [redacted] to [redacted] percent. F&P

notes that it has elected to show the full [] percent margin and [] percent discount as a conservative estimate of the full retail margin.

Freight from Factory to Consumer

3.2.11 An amount of [] percent has been allowed for both Samsung and LG. F&P states that information obtained by it from sources inside and outside Korea suggests that washing machines are delivered from the manufacturer/manufacturer's warehouse direct to the end consumer. F&P states it has estimated the freight cost on the basis of the known cost to it in Australia of [] percent plus a [] percent loading to cover delivery into the home and installation. F&P notes that the three percent cost it incurs in Australia is for delivery from warehouse to the retailer.

Warranty Costs

3.2.12 An amount of [] percent has been allowed for both Samsung and LG. F&P states that [] percent is the accepted figure for warranty provision in the whiteware business. F&P notes that a deduction has been made for warranty costs on the basis that this cost is incurred on domestic sales but not on export sales.

Other Costs

3.2.13 F&P notes that corporate advertising costs for maintaining the presence of an established brand in the market is [] percent of turnover. No deduction has been made for this amount and the Ministry would not normally make an adjustment for this type of advertising cost which is incurred regardless of whether an individual sale is made. The applicant also notes that it has not made a deduction for warehouse and distribution costs as they are not costs directly related to sales and are incurred regardless of whether there is a sale. Freight from factory to consumer has been deducted, as noted above, to arrive at ex-factory prices.

Calculation of Normal Values

3.2.14 The calculation of normal values for Samsung on the basis set out above is shown in the table below.

Table 3.4: Normal Values Samsung

<i>Top Loading</i>		
Capacity (kg)	5.5	6.5
Korean Model No.		SEW-80W
NZ Model No.	SW55AP	SW65ASP
Retail Price (Won)	397,800	442,000
Less Discount ([])		
Net Retail Price (VAT incl)		
Less VAT (10%)		
Net Retail Price (VAT excl)		
Less Retailer's Margin		
Price to Retailer		
Less Inland Freight ([])		
Less Warranty ([])		
Ex-factory Normal Value	258,353	287,059

3.2.15 The calculation of normal values for LG on the basis set out above is shown in the table below.

Table 3.5: Normal Values LG

<i>Top Loading</i>			
Capacity (kg)	4.5	6.5	8.5
Korean Model No.	WFJ55N	WF-J85B	WF-WS133G
NZ Model No.	WFT452	WFT652	WFT852
Retail Price (Won)	308,271	410,000	552,000
Less Discount (□)			
Net Retail Price (VAT incl)			
Less VAT (10%)			
Net Retail Price (VAT excl)			
Less Retailer's Margin			
Price to Retailer			
Less Inland Freight (□)			
Less Warranty (□)			
Ex-factory Normal Value	200,208	266,276	358,499

Front Loading Models

3.2.16 F&P states that a selling price in Korea for the two front loading LG models was not reasonably available. The two front loading models each have a 7kg capacity. For those two models, after discussion with the Ministry, F&P has used the normal value established for a Korean top loading domestic LG model, and, to obtain an estimated normal value for the higher specification model, has adjusted that value by the difference in New Zealand retail prices between lower and higher specification models.

3.2.17 The retail selling price in New Zealand of LG's top loading 6.5kg model, \$1,099, is the same as the retail price of the lower-specification 7kg front loading machine. It would seem reasonable, therefore, to use the normal value established for the LG top loading 6.5kg model for comparison with the lower specification 7kg front loading model. To assess a normal value for the higher-priced 7kg front loading model, it would also seem reasonable, given the limited information reasonably available to the applicant, to adjust the normal value of the lower-priced 7kg model by the relativity between the retail pricing of the two models in New Zealand.

3.2.18 The calculation of normal values for LG, on the basis set out above, is shown in the table below.

Table 3.6: Normal Values LG

<i>Top Loading</i>		
Capacity (kg)	7.0	7.0
Korean Model No.	WF-J85B	WF-WS133G
NZ Model No.	WD8050FH	WD1021W
Retail Price (Won)	266,276	302,620

Conclusion on Normal Values

3.2.19 The Ministry considers that, for purposes of initiation, the information provided by F&P is sufficient evidence of normal values for the subject goods.

3.3 COMPARISON OF EXPORT PRICE AND NORMAL VALUE

3.3.1 F&P notes that it has calculated dumping margins on the basis of information reasonably available and states that “information on other brands has not been available and estimates have not been made for all brands because sufficient evidence of dumping has been shown for initiation”.

3.3.2 F&P notes that its research indicates that models exported to New Zealand are not identical to models manufactured for the Korean market. In particular, F&P notes that claimed capacities in Korea are not the same as those used on the New Zealand market due to the use of different standards in each market. F&P states that the Korean standard (KS C9608-96) is based on the Japanese standard JISC 9606. F&P notes that “this standard is based on an old wringer machine as the standard and is rather primitive. Capacity claims under this standard need to meet an electrical safety benchmark and the standard does not have a wash performance requirement.” F&P states that F&P model sizes 5.5kg, 6.5kg and 7.5kg, “easily rate as 10kg under the Korean standard.”

3.3.3 At the same time, F&P has attempted to take a conservative approach to the calculation of comparative normal values. For example, in calculating LG top loading normal values, F&P states “The lowest domestic price has been used so that the normal value calculation is conservative. For example, a 10kg domestic model could be compared with the 6.5kg export model but this would result in a substantially higher dumping margin.”

3.3.4 F&P has compared New Zealand models of specific capacities with Korean domestic models with claimed capacities as follows:

Table 3.7: Comparison of Capacities

Capacity (kg)	<i>Samsung</i>		<i>LG Models</i>	
Model exported to NZ	6.5	4.5	6.5	8.5
Model sold in Korea	8.0	5.5	8.5	13.0

3.3.5 Based on the information provided to the Ministry, the following is the evidence of dumping:

Table 3.8: Dumping Margins

<i>Samsung Top Loading</i>	Oct	Nov	Oct
Capacity (kg)	5.5	5.5	6.5
Korean Model No.			SEW-80W
NZ Model No.	SW55AP	SW65ASP	SW65ASP
Normal Values	258,353	258,353	287,059
Export Prices	173,190	185,980	224,349
Dumping Margins	85,163	72,373	62,710
As % of Export Price	49%	39%	28%
<i>LG Top Loading</i>			
Capacity (kg)	4.5	6.5	8.5
Korean Model No.	WF-J55N	WF-J85B	WF-WS133G
NZ Model No.	WFT452	WFT652	WFT852
Normal Values	200,208	266,276	358,499
Export Prices	157,316	238,100	283,724
Dumping Margins	42,892	28,176	74,775
As % of Export Price	27%	12%	26%

<i>LG Front Loading</i>		
Capacity (kg)	7.0	7.0
Korean Model No.	WD860R	WD860R
NZ Model No.	WD8050F	WD1021
	H	W
Normal Values	266,276	302,620
Export Prices	225,471	276,866
Dumping Margins	40,806	25,754
As % of Export Price	18%	9%

3.3.6 The evidence provided shows that the alleged margins of dumping range from 9 percent to 49 percent and are not *de minimis* in terms of Article 5.8 of the Agreement as set out above in paragraph 2.3.2. The Ministry is satisfied on the basis of the information provided that the comparison of export prices and normal values provides sufficient evidence of dumping for the purposes of initiation in respect of the importation of washing machines from Korea.

3.3.7 Any investigation will need to give consideration to the provisions of section 4 (export price) and section 5 (normal value) of the Act as they should apply, and in particular to the application of the appropriate adjustments required by section 4(1)(a)(i) and (ii) and section 5(3).

4. EVIDENCE OF INJURY

The basis for considering material injury is set out in section 8(1) of the Act:

8. Material injury to industry—(1) In determining for the purposes of this Act whether or not any material injury to an industry has been or is being caused or is threatened or whether or not the establishment of an industry has been or is being materially retarded by means of the dumping or subsidisation of goods imported or intended to be imported into New Zealand from another country, the [Chief Executive] shall examine—

- (a) The volume of imports of the dumped or subsidised goods; and
- (b) The effect of the dumped or subsidised goods on prices in New Zealand for like goods; and
- (c) The consequent impact of the dumped or subsidised goods on the relevant New Zealand industry.

4.1 IMPORT VOLUMES

Section 8(2)(a) of the Act provides that the Chief Executive shall have regard to the extent to which there has been or is likely to be a significant increase in the volume of imports of dumped or subsidised goods either in absolute terms or in relation to production or consumption in New Zealand.

4.1.1 F&P has provided Statistics New Zealand import volume figures for the March years 1998 to 2000, and the year-to-July 2000. Statistical keys for imports were amended in 1998 and comparative statistical keys are not available for 1997.

4.1.2 The following table shows the volume of imports of the subject goods into New Zealand over the period 1998 to 2000 and for the four months to July 2000, and compares them with the New Zealand industry's production and consumption in the New Zealand market.

Table 4.1: Import Volumes
(Units)

	1998	1999	2000	4 Months to July 2000
Korean Imports	6	688	5,729	5,813
Other Imports	42,174	39,749	48,054	15,134
Total Imports	42,180	40,437	53,783	20,947
NZ Industry Sales NZ Market				
Change on Previous Year:				
Korean Imports		682	5,041	
Other Imports		-2,425	8,305	
Total Imports		-1,743	13,346	
NZ Industry Sales NZ Market				
Percentage Change:				
Korean Imports		11367%	733%	

Other Imports	-6%	21%
Total Imports	-4%	33%
NZ Industry Sales		
NZ Market		
Korean Imports as % of:		
- NZ Industry Sales		
- Market		

- 4.1.3 Based on figures from April to July 2000, the applicant has estimated that, for the year ending March 2001 import volumes from Korea will reach 17,439 units.
- 4.1.4 F&P transferred manufacture of its 6.5kg model to Australia in February 1999. The New Zealand market has been supplied by F&P from Australia with its 6.5kg machine since March 1999. A small volume of Australian-made 6.5kg machines is included in the NZ industry sales figures for 1999.
- 4.1.5 The figures in the table show that in the year to 31 March 2000, and in the four months to 31 July 2000, imports of the subject goods increased significantly in absolute terms and relative to production and consumption in New Zealand.
- 4.1.6 F&P also provided separate figures for imports of top loading and front loading washing machines and notes that, while imports of both types of washing machine increased, the main effect of the dumped imports has been driven by top loading imports.
- 4.1.7 There is evidence that import volumes of the subject goods have increased significantly in absolute terms and relative to production and consumption in New Zealand.

4.2 PRICE EFFECTS

4.2.1 Price Undercutting

Section 8(2)(b) of the Act provides that the Chief Executive shall have regard to the extent to which the prices of the dumped or subsidised goods represent significant price undercutting in relation to prices in New Zealand (at the relevant level of trade) for like goods of New Zealand producers.

- 4.2.1.1 In considering price undercutting, the Ministry will normally seek to compare prices at the ex-factory and ex-importer's store levels, to ensure that differences in distribution costs and margins do not confuse the impact of dumping.
- 4.2.1.2 To demonstrate price undercutting, F&P has compared the ex-importer's store prices of two Samsung and four LG models with the F&P invoiced prices of the closest equivalent F&P models. For the Korean models, F&P has estimated ex-importer's store prices using figures from its export price constructions. For the F&P models, F&P has used the net invoice price to a large customer, [REDACTED]. The following table shows the comparison of prices.

Table 4.2: Comparison of Prices
(NZ\$ per Unit)

Brand	Model	Price	F&P Model	Price	Undercutting %
Samsung	SW55APP		GW5.5kg		
Samsung	SW55APP*		GW5.5kg		
Samsung	SW65ASP		GW6.5kg		
Samsung	SW65ASP		GW7.5kg		
LG	WFT 652		GW5.5kg		
LG	WFT 652		GW6.5kg		
LG	WD8050FH		GW7.5kg		
LG	WD1021W		IW7.5kg		

* Prices in November 2000

4.2.2 It is noted that two of the above comparisons have been made by F&P with its 6.5 kg models which are made in Australia. While price undercutting comparison's should be made between the goods produced in New Zealand and those goods produced in Korea, it is considered that, in the absence of identical New Zealand models, and since the 6.5kg F&P model forms part of the F&P range and is priced accordingly, the price of that model can be used by the applicant as indicative of an equivalent New Zealand model price.

4.2.2.1 While some of the comparisons are not of models with identical capacity, and top loading F&P models have been compared with front loading LG models, evidence has been provided comparing prices with the closest equivalent models. F&P considers that the price undercutting shown in the above table will be understated as prices for its models are for June 2000 and in October F&P increased prices. The Ministry considers the evidence provided is indicative that prices of washing machines produced by F&P in New Zealand are being undercut by prices of some models of Korean washing machines.

4.2.2.2 The indicative price undercutting margins range from [redacted] percent. There is evidence that some of the prices of the allegedly dumped imports are undercutting significantly the prices of the New Zealand industry and this evidence is sufficient for purposes of initiation.

4.2.3 Price Depression

Section 8(2)(c) of the Act provides that the Chief Executive shall have regard to the extent to which the effect of the dumped or subsidised goods is or is likely significantly to depress prices for like goods of New Zealand producers.

4.2.3.1 Price depression occurs when prices are lower than those in a market unaffected by dumping, usually in a previous period.

4.2.3.2 Since February 1999, F&P has produced in New Zealand 5.5kg and 7.5kg capacity washing machines. F&P also produced a 6.5kg machine in New Zealand prior to February 1999, after which production was transferred to Australia. In calculating average selling prices over the past three March years, 6.5kg volumes and revenues have been excluded so that the comparison between years is valid.

4.2.3.3 F&P has provided actual and projected financial information that allows sales revenue per unit to be calculated. F&P has made projections [redacted]
[redacted]. Average selling prices are shown in the following table.

Table 4.3: Average Selling Prices of Washing Machines
(NZ\$ per Unit)

	1998	1999	2000	2001 est. With Price Increase	2002 est. Without Increase
GW5.5kg					
GW7.5kg					
IW7.5kg	NA	NA			
Total					

4.2.3.4 The figures show that overall average prices declined in 1999, recovered in 2000 and will increase in 2001. The increased average selling price in 2001 is due to _____.

4.2.3.5 F&P refers to the significant increase in Korean imports in 2000 and states that "to maintain volume market share F&P has been forced to drastically reduce its prices to dealers to maintain sales . . .". F&P has compared prices in the first four months of this financial year with prices in the same period last financial year, as shown in the following table.

Table 4.4: Average Selling Prices of Washing Machines
(NZ\$ per Unit)

	Apr-Jul 1999	Apr-Jul 2000	Change	% Change
GW5.5kg				
GW7.5kg				
IW7.5kg				
Total				

4.2.3.6 The most recent financial information shows that average prices for all F&P models produced in New Zealand were lower than average prices for the same period in the previous financial year. However, F&P expects the forecast figures for the full year 2001 (as shown in Table 4.2 above) to be _____.

4.2.3.7 The Ministry considers that the evidence provided by F&P shows that at times average prices have decreased, but also that _____. The evidence presented in support of price depression claimed to be due to dumped imports is unclear and not sufficient for purposes of initiation.

4.2.4 Price Suppression

Section 8(2)(c) of the Act also provides that the Chief Executive shall have regard to the extent to which the effect of the dumped or subsidised goods is or is likely significantly to prevent price increases for those goods that otherwise would have been likely to have occurred.

4.2.4.1 The Ministry generally bases its assessment of price suppression on positive evidence, in particular the extent to which cost increases have not been recovered in prices. Cost increases not able to be recovered by price increases will be reflected by an increased ratio of costs to sales revenue. Where cost savings have been made, the lack of any price increase will not normally be regarded as price suppression. While the inability to recover cost

increases in prices is the main indicator of price suppression, the Ministry will consider any other factors raised as positive evidence of price suppression.

4.2.4.2 F&P states that it has in recent times been lowering its prices to maintain competitiveness and import volumes and that it “has been unable to increase prices to recover increased costs”. F&P refers to increased costs of imported raw materials due to the fall in value of the New Zealand dollar.

4.2.4.3 The transfer of production of F&P’s 6.5kg model to Australia in March 1999, means that comparison of financial information over the years 1998 to 2000 will be distorted, making interpretation of any trends problematic. For purposes of assessing whether there is price suppression, F&P has compared financial information (excluding 6.5kg sales) for the four months April to July 1999 with the same months in 2000. From the financial information provided by F&P, the Ministry has prepared the following table.

Table 4.5: Price Suppression
(NZ\$ per Unit)

(5.5kg & 7.5kg models only)	Apr-Jul 1999	Apr-Jul 2000
Ave Selling Price		
Cost of Production		
Gross Margin		
Selling & Admin.		
EBIT		
GM as % of Sales		
EBIT as % of Sales		

4.2.4.4 As F&P noted, average cost per unit increased at the same time as average prices decreased. In discussing price depression, the Ministry noted that prices had decreased and had also recently increased. The Ministry also compared financial information for washing machines (excluding 6.5kg models) for the full financial years 1998 to 2000.

4.2.4.5 The following table, which was calculated from actual and projected financial data provided by F&P, shows gross margin and EBIT as a percentage of sales for washing machines (excluding 6.5kg models) over the past three years and for the year ended March 2001.

Table 4.6: Price Suppression
(NZ\$ per Unit)

	1998	1999	2000	2001 est. With Price Increase	2001 est. Without Increase
Ave Selling Price					
Cost of Production					
Gross Margin					
Selling & Admin.					
EBIT					
GM as % of Sales					
EBIT as % of Sales					

4.2.5 Gross margin and gross margin as a percentage of sales declined significantly in 1999, recovered in 2000 and is forecast to decline significantly in 2001. Per unit cost of production declined in 1999 and again in 2000, but is

forecast to increase significantly in 2001. EBIT per unit and as a percentage of sales declined significantly in 1999, recovered in 2000 and is forecast to decline significantly in 2001. Per unit selling and administration costs remain relatively steady throughout the period. The declines in gross margin and EBIT in 1999 occurred before F&P claims that allegedly dumped imports began to cause material injury.

4.2.6 The Ministry notes that F&P increased prices in October 2000, but is [REDACTED]. Nonetheless, based on F&P's projected figures, there is evidence that, [REDACTED], F&P will be unable to increase sufficiently prices in 2001 to recover increased costs of production.

4.2.7 The Ministry also notes that financial data for the four months to July 2000 shows that per unit gross margin and EBIT, and gross margin and EBIT as a percentage of sales revenue, have declined significantly.

4.2.8 There is sufficient evidence that prices are being suppressed.

Conclusion on Price Effects

4.2.8.1 There is sufficient evidence of price undercutting and price suppression. There is not sufficient evidence of price depression.

4.3 **ECONOMIC IMPACT**

Section 8(2)(d) of the Act provides that the Chief Executive shall have regard to the economic impact of the dumped or subsidised goods on the industry, including—

- (i) Actual and potential decline in output, sales, market share, profits, productivity, return on investments, and utilisation of production capacity; and*
- (ii) Factors affecting domestic prices; and*
- (iii) The magnitude of the margin of dumping; and*
- (iv) Actual and potential effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investments.*

4.3.1 **Output and Sales**

4.3.1.1 F&P advises that [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED].

Output

4.3.1.2 F&P has advised that production closely follows sales and, therefore, separate production figures have not been provided.

4.3.1.3 F&P transferred manufacture of its 6.5kg model to Australia in February 1999, but retains the capability to manufacture this model in New Zealand.

Sales Volume

4.3.1.4 F&P states that its strategy in meeting price undercutting by the dumped goods "is to protect volume sales as much as possible". The following table shows volumes of units sold by the New Zealand industry.

Table 4.7: Volume of Sales
(Units)

	1998	1999	2000	4 Months to July 2000
F&P				

4.3.1.5 The New Zealand market has been supplied by F&P from Australia with its 6.5kg machine since March 1999. A small volume of Australian-made 6.5kg machines is included in the NZ industry sales figures for 1999.

4.3.1.6 Interpretation of trends in the above table is difficult because it is not possible from the table figures to identify the extent to which the decline in sales in 1999 is due to F&P ceasing production in New Zealand of its 6.5kg model. F&P provided sales figures, therefore, that exclude 6.5kg washing machines and these are included in the following table.

Table 4.8: Volume of Sales
(Units - Excluding 6.5kg)

	1998	1999	2000	4 Months to July 2000
F&P				

4.3.1.7 The table shows that sales increased significantly in 1999 and returned to the 1998 level in 2000. If the figure for four months is annualised, the annual figure shows that sales for 2001 are static.

4.3.1.8 F&P has estimated its sales for the year ended March 2001 on the basis of "the expectation that some volume loss is inevitable given the extent of price undercutting". F&P has estimated sales of [redacted] for 2001, which represents a significant decline from the sales volume in 2000. F&P states that "This forecast of the threat of loss of sales has taken into account the provisions of Article 3.7 of the Agreement:

- A significant rate of increase of dumped imports into the domestic market indicating the likelihood of substantially increased importation.
- Increased demand through the price depressing and suppressing effect of the imports."

4.3.1.9 F&P's forecast sales volume is based on sales of [redacted]
[redacted]
[redacted]. F&P notes that "the forecast effect of the loss of volume due to dumping is understated [redacted]
[redacted]."

4.3.1.10 F&P states that "the volume impact of the dumping [redacted]
[redacted] in particular are forcing prices in the market to where F&P's forecast sales revenue is no longer sufficient to

generate an acceptable EBIT". F&P provided sales volume figures for each washing machine capacity. These show that sales of [redacted] machines have declined significantly since 1998. Annualisation of the figures for the four months to July 2000, indicates that sales of [redacted] machines will decline slightly, sales of [redacted] machines will increase and sales of [redacted] machines will remain relatively static.

4.3.1.11 There is no evidence of an overall actual decline in the industry's sales volume. F&P has forecast a sales volume decline for the year 2001 but detailed calculations have not been provided in support of that forecast.

Sales Revenue

4.3.1.12 F&P advises that, as a result of the imports, it "has been regularly discounting prices to dealers [redacted]".

4.3.1.13 To overcome the problem of interpretation of trends caused by inclusion of 6.5kg washing machines, F&P has provided the sales revenue figures for washing machines excluding 6.5kg machines. The following table shows that sales revenue has remained relatively steady from 1998 to July 2000.

Table 4.9: Sales Revenue
(Units - Excluding 6.5kg)

	1998	1999	2000	4 Months to July 2000
--	------	------	------	--------------------------

F&P	[redacted]	[redacted]	[redacted]	[redacted]
-----	------------	------------	------------	------------

4.3.1.14 F&P has estimated sales revenue for the year ended March 2001 to be [redacted]. This represents a significant decline in sales revenue. F&P states that [redacted].

4.3.1.15 The Ministry has also examined figures provided by F&P in respect of each capacity of washing machine. These show that sales revenue from [redacted] machines has declined significantly since 1998. Annualisation of the figures for the four months to July 2000, indicate that sales revenue from [redacted] machines will decline slightly, sales revenue from [redacted] machines will increase slightly and sales revenue from [redacted] machines will increase slightly.

4.3.1.16 There is no evidence of an overall actual decline in the industry's sales revenue. F&P has forecast a sales revenue decline for the year 2001 but detailed calculations have not been provided in support of that forecast.

4.3.2 **Market Share**

4.3.2.1 The analysis of market share must take account of changes in the growth of the market as a whole. A decline in the share of the market held by the domestic industry in a situation where the market as a whole is growing will not necessarily indicate that injury is being caused to the domestic industry, particularly if the domestic industry's sales are also growing.

4.3.2.2 The table below shows actual market share and changes in market share.

Table 4.10: Market Share
(Units)

	1998	1999	2000	4 Months to July 2000
NZ Market				
NZ Industry Sales				
Korean Imports	6	688	5,729	5,813
Other Imports	42,174	39,749	48,054	15,134
% Share Held By:				
NZ Industry Sales				
Korean Imports				
Other Imports				

4.3.3 The figures in the table show that market share held by the New Zealand industry fell significantly in the year ended March 2000, and has declined further in the four months to July 2000. The Ministry notes that F&P transferred manufacture of its 6.5kg washing machines from New Zealand to Australia in February 1999, and a decline in New Zealand industry sales and market share in the year ended March 2000 is to be expected.

4.3.4 F&P's market share for machines other than 6.5kg is shown in the following table.

Table 4.11: Market Share
(F&P Units - Excluding 6.5kg)

	1998	1999	2000	4 Months to July 2000
F&P Sales				
F&P Market Share				

4.3.5 The table shows that F&P's market share increased slightly in 1999, decreased slightly in 2000 and declined in the first four months of 2001. There is evidence of a slight decline in market share in 2000 and a decline in the first four months of this year.

4.3.6 On the basis of F&P's forecast sales volume in 2001, market share would fall significantly to █ percent. However, as noted above in considering sales volume, detailed evidence has not been provided in support of the forecast sales. Nor has detailed evidence been provided in support of a growth in the size of the market.

4.3.7 F&P states that "in the absence of dumping F&P would be in a position to share in the growth of the market through maximising and enhancing its very strong brand".

4.3.8 There is sufficient evidence that the New Zealand industry has experienced some decline in market share.

4.3.9 Profits

4.3.9.1 Changes in net profits reflect changes in prices, sales volumes or costs. Dumped or subsidised imports can impact on any or all of these. If possible, the extent of any decline in profit will be measured against the level achieved in the period immediately preceding the commencement of the dumping.

4.3.9.2 In an investigation, the Ministry’s assessment of the impact of dumped imports is based on an examination of trends in actual profits in order to establish whether or not there is an actual or potential decline in profits. In some circumstances it may be possible to determine that injury is being caused where profits are not declining, but that would depend on the circumstances of the case, and would need to be based on positive evidence. Such an impact would also need to be attributable to the dumping of imports.

4.3.9.3 The table below shows an analysis of the earnings before interest and tax achieved for washing machines.

Table 4.12: Earnings Before Interest and Tax

	(Units NZ\$)		
	1998	1999	2000 4 Months to July 2000
EBIT on all NZ Sales			
- Per Unit			
- As % of Revenue			
EBIT (Excluding 6.5kg)			
- Per Unit			
- As % of Revenue			

4.3.10 The table shows that, in the first four months of the 2001 financial year, EBIT has declined significantly on a per unit basis and as a percentage of sales revenue. F&P states that in this period 5,813 units were imported from Korea compared with 953 units in the same period a year prior.

4.3.11 F&P notes that, for washing machines other than [redacted], EBIT increased in 2000 and this suggests that the allegedly dumped imports did not have an effect in that year. Sales volumes in 2000 were down by [redacted] units on the previous year but F&P notes that this decline was offset by improved prices which contributed significantly to the EBIT increase in 2000. F&P states that “the major contributor to the improvement in EBIT was, however, the result of redesigning the electronics used in the automatic washing machines”. The redesign led to cost reductions of \$[redacted], although these were partly offset by increased overheads. F&P states:

In the absence of the dumped imports the improvement in EBIT would have been higher as the price/volume effects of the dumping margin would not have impacted on F&P. The dumped imports have completely removed from F&P the opportunity to benefit from the cost reductions achieved in YEM 2000. It is reasonable to observe that these cost savings should be contributing to the profits of the business in YEM 2001.

4.3.12 F&P has forecast EBIT for the year ending March 2001 on the basis of two different scenarios. [redacted], F&P forecasts EBIT will decline significantly to [redacted], [redacted] per unit and [redacted] percent of sales revenue. [redacted], F&P forecasts [redacted] or [redacted] per unit, [redacted] being [redacted] percent of sales revenue.

4.3.13 F&P states that “loss of profits has been greater than shown in this analysis, as [F&P] has not addressed the profits that should have been achieved in the absence of dumping”.

4.3.14 There is evidence that profits have declined significantly. Profits have declined due to price suppression and the price undercutting analysis indicates that price suppression is due to the allegedly dumped imports.

4.3.15 **Productivity**

4.3.15.1 F&P considers that, because it is seeking to maintain volume market share, “productivity is expected to remain constant but at a cost to F&P”.

4.3.16 **Return on Investments**

4.3.16.1 A decline in return on investments will result from a decline in returns with or without a relative increase in the investment factor being used. Movements in the return on investments affect the ability of the industry to retain and attract investment.

4.3.16.2 F&P has commented that it “has not yet completed the apportionment of fixed assets to the washer business to allow a meaningful comment at this stage. It is evident, however, that the rapid reduction in EBIT will result in the return on investment being substantially less”.

4.3.17 **Utilisation of Production Capacity**

4.3.17.1 The utilisation of production capacity reflects changes in the level of production, although in some cases it will arise from an increase or decrease in production capacity. In either case, a decline in the utilisation of production capacity will lead to an increase in the unit cost of production, and a consequent loss of profit.

4.3.17.2 F&P states that utilisation of production capacity “is not expected to change given F&P’s move to protect volume market share”.

4.3.17.3 Data provided by F&P shows that factory utilisation was fairly static over the 1998, 1999 and 2000 financial years at █% to █%, but declined to █% in the year to July 2000.

4.3.18 **Other Adverse Effects**

4.3.18.1 In considering other adverse effects, the Ministry considers actual and potential effects on cash flow, inventory, employment, wages, growth, ability to raise capital, and investment.

4.3.18.2 F&P recognises that dumped imports can have a measurable impact on the above factors and considers these factors can be examined in an investigation. Apart from in respect of employment, F&P has provided no information on other adverse effects and considers that these effects will become evident during an investigation.

Employment

4.3.18.3 F&P advises that it employs █
█
█
█.

4.3.18.4 The Ministry notes that F&P announced in November 2000 that its whiteware division was being reorganised from a divisional to a centralised structure involving a staff reduction of 200. Any investigation will need to examine the extent to which such employment reductions are due to dumped imports.

4.4 OTHER CAUSES OF INJURY

Sections 8(2)(e) and (f) of the Act provide that the Chief Executive shall have regard to factors other than the dumped goods which have injured, or are injuring, the industry, including—

- (i) The volume and prices of goods that are not sold at dumped prices; and*
- (ii) Contraction in demand or changes in the patterns of consumption; and*
- (iii) Restrictive trade practices of, and competition between, overseas and New Zealand producers; and*
- (iv) Developments in technology; and*
- (v) Export performance and productivity of the New Zealand producers; and*

the nature and extent of importations of dumped or subsidised goods by New Zealand producers of like goods, including the value, quantity, frequency and purpose of any such importations.

Non-dumped Imports

4.4.1 F&P notes that prior to the alleged dumping, “imports from Australia provided F&P with the level of competition normally expected between suppliers” but price undercutting by the dumped goods has caused Australian suppliers “to reduce their prices to meet the dumped Korean price”.

4.4.2 F&P notes that automatic washing machines are also imported into New Zealand from Australia, Germany, Italy, Sweden and the United States. Import volumes of imports from countries other than Korea are shown above in Table 4.10 which shows that imports from other countries declined in 1999, increased significantly in 2000 and in the four months to July 2000 appear to have declined.

4.4.3 Market share held by imports from other countries declined in 1999, increased significantly in 2000 and declined in the four months to July 2000 towards the 1998 level. The decline in market share held by imports from other countries in the latest four months coincides with an increase in market share for imports from Korea.

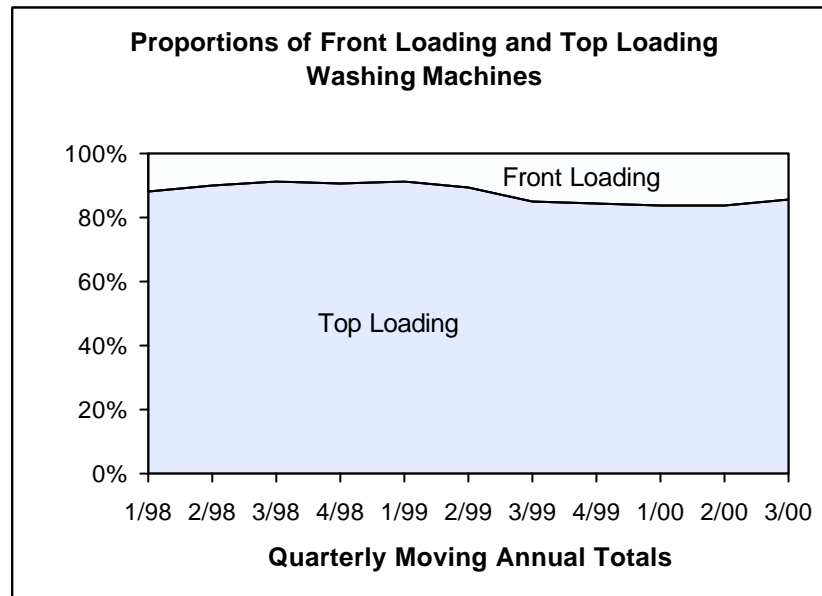
4.4.4 F&P commenced manufacture of its 6.5kg model in Australia in 1999 and, consequently, the increase in imports from other countries in 2000 is due mainly to F&P imports from Australia. Removal of F&P’s imports from Australia show that imports from other countries declined from [redacted] units in 1998 to [redacted] units in 1999 and [redacted] units in 2000. The evidence indicates that imports from other countries have not had an impact on the industry in volume terms.

Changes in Demand or Patterns of Consumption

4.4.5 F&P notes that demand for front loading machines appears to be increasing. F&P points to market share for front loading machines increasing from [redacted]

percent in the first four months of 1999 to █ percent in the same period in 2000. The Ministry notes, however, that number of units imported remained relatively static.

4.4.6 The following table shows that the proportion of front loading machines imported from all sources has increased slightly.



Restrictive Trade Practices and Competition

4.4.7 F&P considers there is no evidence that restrictive trade practices of, and competition between, overseas and New Zealand producers are causing injury.

Developments in Technology

4.4.8 F&P considers there is no evidence of technology developments that are relevant to the consideration of injury.

Export Performance and Productivity

4.4.9 F&P has excluded its export business from its material injury analysis so that the export business does not impact on figures for its domestic business.

4.4.10 The Ministry is aware of comment in the media by various parties that F&P has had problems with forward foreign exchange contracts on its export earnings. The significance of this should be considered in any investigation.

Imports by the Industry

4.4.11 F&P imports automatic washing machines from Australia and Italy (front loading automatic washing machines) and has imported sample models from Japan, Korea and the United States. The Ministry notes that the washing machines F&P imports from Australia and Italy are not subject goods (not being from Korea). F&P's imports from Australia and Italy consequently do

not fall within the scope of section 8(2)(f) of the Act. Very few machines have been imported as samples from Korea.

Other Factors

4.4.12 The applicant considers that there is no evidence that factors other than dumping may have contributed to injury caused by dumped imports.

Exclusive Dealer Arrangements

4.4.13 The Ministry is aware of media comment by some retailers that F&P's exclusive dealer arrangements has resulted in sales being lost by F&P because those retailers are unable to stock F&P product (as they would like to) and other brands at the same time.

4.4.14 F&P operates Exclusive Dealer Agreements (EDA) with 259 of the 625 retail outlets known to F&P in New Zealand. F&P notes that in 1990 it appealed against a Commerce Commission decision that ruled against the EDA and "was successful in demonstrating that the EDA did have positive competitive effects". F&P cites the following from the High Court judgement.

F&P is nevertheless significantly constrained by its competitors. It has lost significant share of the market as a result of tariff and import barriers being removed; it is facing fierce competition in the marketplace because normal barriers to entry are low and there are now no longer any artificial barriers to entry, at least for Australian imports. In the absence of unofficial barriers to entry, EDC (exclusive dealing clause) can have positive pro-competitive effects on a market.

4.4.15 F&P notes that [REDACTED]

4.4.16 Any investigation should examine whether F&P's exclusive dealer policy has been a cause of injury to F&P.

Forward Exchange Rate Cover

4.4.17 The Ministry is aware of comment by various parties reported in the media, that F&P has suffered injury through not obtaining forward exchange rate cover for the cost of imported materials used in manufacturing process.

4.4.18 Any investigation should examine whether exchange rate cover issues have been a cause of injury to F&P.

4.5 CONCLUSIONS RELATING TO INJURY

4.5.1 There is evidence that import volumes of the subject goods have increased significantly in absolute terms and relative to production and consumption in New Zealand.

- 4.5.2 There is sufficient evidence that prices are being undercut, and that prices are being suppressed. There is insufficient evidence of price depression.
- 4.5.3 There is sufficient evidence that there has been a consequent economic impact in the form of a decline in profits.
- 4.5.4 There is no evidence of an overall actual decline in the industry's sales volume and revenue.
- 4.5.5 The industry considers there is no evidence that factors other than dumping have contributed to the injury suffered by F&P but other parties have commented in the media that F&P's exclusive dealer arrangement and forward exchange contracts (or lack of forward exchange contracts on import costs) have had an adverse impact on F&P.

5. CONCLUSIONS

- 5.1 On the basis of the information available, it is concluded that, for the purposes of initiation, there is sufficient evidence that:
- (a) Automatic washing machines from Korea are being dumped; and
 - (b) By reason thereof material injury to the New Zealand industry is being caused.

6. RECOMMENDATIONS

It is recommended on the basis of the conclusions reached and in accordance with section 10 of the Dumping and Countervailing Duties Act 1988:

- (a) that the Chief Executive of the Ministry of Economic Development formally initiate an investigation to establish whether imports of automatic washing machines from Korea are being dumped and are causing or threatening to cause material injury to the New Zealand industry producing like goods;
- (b) that the Chief Executive sign the attached *Gazette* notice, and give notice to interested parties in accordance with section 9 of the Act.

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Investigating Team
Trade Remedies Group