



INVESTIGATION 225

ALLEGED DUMPING OF WHITE UNCOATED A4 AND A3 CUT SHEET PAPER (COPY PAPER) EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA

VISIT REPORT - IMPORTER

Complete Office Supplies Pty Ltd

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
THE FINAL POSITION OF THE ANTI-DUMPING COMMISSION

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ABBREVIATIONS

\$	Australian dollars
ADN	Australian Dumping Notice
The Act	<i>Customs Act 1901</i>
ADN	Anti-Dumping Notice
Australian Paper	Paper Australia Pty Ltd
CFR	Cost and freight
COGS	Cost of goods sold
Commission	Anti-Dumping Commission
COS	Complete Office Supplies
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
FOB	Free On Board
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 Industry
USP	Unsuppressed Selling Price

1 BACKGROUND AND PURPOSE

1.1 Background

On 17 September 2013, an application was lodged by Paper Australia Pty Ltd (Australian Paper) requesting that the relevant Minister publish a dumping duty notice in relation to white uncoated A4 and A3 cut sheet paper (copy paper) exported to Australia from the People's Republic of China (China).

Australian Paper alleges that the Australian industry has suffered material injury caused by copy paper exported to Australia from China at dumped prices.

Australian Paper claims that, although imports of copy paper from China have been present (and their export prices steadily declining) since 2009, in 2011 the volume of these imports began to rapidly escalate and injury to Australia Paper has occurred as a result (estimated to have begun in mid-2011).

The application identified the injurious effects from dumping as including:

- loss of sales volumes;
- loss of market share;
- price depression;
- reduced revenue;
- reduced return on investment; and
- reduced employment

Public notification of the initiation of the investigation was made on 10 October 2013 in *The Australian* newspaper and Anti-Dumping Notice No. 2013/79.

1.2 Purpose of visit

The purpose of the visit was to:

- confirm that Complete Office Supplies Pty Ltd (COS) is an importer of copy paper and obtain information to assist in establishing the identity of the exporter(s) of this copy paper;
- verify information on imports of copy paper to assist in the determination of export prices;
- establish whether the purchases of copy paper were arms-length transactions;
- identify sales and customers and verify sales volume, selling prices and selling costs;
- obtain general information about the Australian market for copy paper; and
- provide the company with an opportunity to discuss any issues it believed relevant to the investigation.

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1.3 Meeting details

Company	Complete Office Supplies Pty Ltd 25 Nyrang Street Lidcombe, NSW Australia
Dates of visit	5 December 2013

The following were present at various stages of the meetings.

Complete Office Supplies	Dominique Lyone – Managing Director Belinda Lyone – General Manager
Anti-Dumping Commission	Nicole Platt – Manager – Operations 2 Michael Kenna – Manager – Operations 2

1.4 Investigation process and timeframes

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

- The investigation period is 1 July 2012 to 30 June 2013.
- The injury analysis period is from 1 January 2010 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (9 December 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 and/or a countervailing duty notice.

This was distinguished from the 'reasonable grounds' threshold for initiation of the investigation.

- The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 28 January 2014, or such later date as the Minister allows under s.269ZHI of *the Customs Act 1901* (the Act).

The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Minister, and will invite interested parties to respond, within 20 days, to the issues raised therein.

- Following receipt and consideration of submissions made in response to the SEF, the Commission will provide its final report and recommendations to the Minister.

This final report is due no later than 14 March 2014, unless an extension to the SEF is approved by the Minister.

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1.5 Visit report

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

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

2 THE GOODS

2.1 Description

The goods the subject of the application (the goods) are:

Uncoated white paper of a type used for writing, printing or other graphic purposes, in the nominal basis weight range of 70 to 100 gsm and cut to sheets of metric sizes A4 (210mm x 297mm) and A3 (297mm x 420mm) (also commonly referred to as cut sheet paper, copy paper, office paper or laser paper).

The paper is not coated, watermarked or embossed and is subjectively white. It is made mainly from bleached chemical pulp and/or from pulp obtained by a mechanical or chemical process and/or from recycled pulp.

2.2 Tariff classification

The goods are classified to the following tariff subheadings in Schedule 3 to the *Customs Tariff Act 1995*:

- 4802.56.10, statistical codes 03 and 09; and
- 4802.56.90, statistical code 19

The application observes that tariff subheading 4802.56.10 refers to A4 copy paper and 4802.56.90 relates to A3 copy paper. These goods are subject to 5% Customs duty.

3 COMPANY DETAILS

3.1 Commercial Operations

Complete Office Supplies Pty Ltd (COS) is a privately owned company operated by its founder, Dominique Lyone. COS was established in 1976 and it is Australia's largest privately owned office products supplier, which has developed over the years to offer a next day delivery service to over 5,000 customers across Australia.

COS supplies a full range of office supplies products including:

- Stationery
- IT Hardware & Technology
- Office Furniture
- Toner & Ink
- Kitchen & Catering
- Promotional Products
- Office Machines
- Cleaning & Janitorial
- Printing

Copy paper sales account for approximately [REDACTED] % of the company's turnover.

COS has approximately [REDACTED] staff located across its' offices in all capital cities. Stock is held in all capital cities for distribution, in addition, two sales offices, [REDACTED], are located in Newcastle and Canberra.

3.2 Accounting structure and details of accounting systems

COS is a limited liability company registered in Australia. Its accounts are audited by Jack Ford Chartered Accountants and its financial year is the year ended 30 June. COS provided us with a copy of its Annual Report for the year ended 30 June 2013 including financial statements and auditor's report (**confidential attachment 1**).

3.3 Relationship with suppliers and customers

COS advised that during the investigation period [REDACTED] [supplier details] was its main Chinese supplier. However it does source the goods from multiple paper mills in China. COS has recently changed suppliers from [REDACTED] to [REDACTED] as [REDACTED] is not well established to supply carbon neutral paper which is important to many of COS' customers.

COS advised that it had initially sourced the goods from Australian Paper for many years. COS ceased purchasing the goods from [REDACTED]. [REDACTED] [confidential supply arrangements] COS still purchases a small amount of copy paper from Australian Paper. COS noted that [REDACTED] makes it difficult to source [REDACTED]. [REDACTED] [confidential supply arrangements]

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COS has sourced copy paper from many overseas mills, however has mainly purchased copy paper from China over the last two years. Prior to that, for a number of years copy paper was mainly sourced from South Africa and supply only changed when the South African mill ceased producing cut sheet paper.

COS stated that it is not related to any of the group's copy paper customers in Australia or any of its Chinese suppliers.

3.4 Like goods

COS explained that it sources three main types of copy paper:

- Private label – which is the premium product in A4 and A3 sizes and is the main copy paper product sold by COS;
- Laser – heavy weighted paper (90-200+ GSM); and
- Non-private label products – generic paper available for sale to any COS customer.

As UPM does not make a recycled paper, COS buys its recycled paper from other mills including Australian Paper. COS estimates that it purchases only a couple of containers each week of recycled paper as it is much more expensive to buy from the supplier than other paper, and the margin on recycled paper when sold is [REDACTED] % compared to [REDACTED]. [paper margins]

COS advised that copy paper prices change depending on the specifications of the paper. Different specifications determine the quality and price levels of the copy paper. There may be up to 10 different specifications for each paper type. The main specifications to be considered when sourcing the goods to meet customer requirements are the CIE, being the whiteness of the paper, and the opacity, which describes the ability to print double sided in different machines.

COS sources mostly 80GSM paper from its mills in China, however does source 90-240GSM ranges in smaller quantities. COS will also [REDACTED] when it becomes available [REDACTED]. [supply details]

COS does not buy [REDACTED]

[REDACTED]. [supply details]

COS deals mostly with large businesses and government departments, therefore usually sources products based on a customer's specific requirements, be it generic or branded paper products.

Approximately every two years COS reviews its suppliers and researches the market to establish future supply relationships. No formal tender process is involved. COS approaches different suppliers and assesses their supply abilities, selecting those that can meet all COS supply needs. It was this process that led to the move away from

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supply by [REDACTED] to [REDACTED]. [REDACTED] was able to supply a carbon neutral product and there were no conflicting business relationships with competitors. In order to remain competitive, COS seeks suppliers that can provide a point of difference for their supplies to differentiate them within the copy paper market.

COS noted that it would prefer to source products locally, however that is not a viable option at this time.

Based on the information and specification details obtained, it appears that the Australian industry produces a like good to copy paper manufactured in China and exported to Australia.

4 AUSTRALIAN MARKET

4.1 General

COS noted that the copy paper market was in decline. Globally the demand for copy paper has been decreasing and traditional stationery uses have been moving towards technology based devices such as tablets and mobile phone applications. The print industry is one of the main customer bases for paper supplies and the decline in the print industry flows through to the copy paper market. People no longer print many things and most communication is down via email and other electronic means.

Despite the decline in the copy paper market, COS has managed to maintain and grow its business by supplying a large range of office products. Copy paper is only a small part of that supply.

4.2 Sales

4.2.1 Ordering and sales process

COS maintains warehouse supplies in all capital cities to enable next day delivery wherever possible. The head office is located in Sydney.

When ordering from overseas mills, COS deals through the mill's local office in Australia. During the investigation period this was mostly with [REDACTED] office in Sydney. Despite placing orders through the local offices, the product is shipped directly from the overseas mill to COS. Although COS has since changed its overseas supplier, the ordering process has remained the same.

When deciding which company to source products through, COS considers the certification requirements available from certain countries. COS decides which country the paper will come from when sourcing from an overseas company that supplies from multiple overseas destinations. COS noted that the cheapest possible copy paper comes from Indonesia, however there are accreditation issues. Copy paper supplied by China can get accreditation. Whether or not the customer demands accreditation will often determine where COS seeks supply.

Product is imported approximately 1 to 2 months prior to the date it is usually sold. There is a lead time between the order date and delivery. Copy paper is produced to order by each mill and not sold from holding stock.

4.2.2 Rebates

COS advised that it does not offer rebates for sales of copy paper to customers. [REDACTED]

[REDACTED] there is no copy paper specific rebate offered. [REDACTED]
[REDACTED]. COS provided financial information that showed rebates paid during the 2013 financial year totalled [REDACTED].
[confidential rebate information]

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4.2.3 Sales verification

In its response to the Commission, COS provided details of sales of [REDACTED] stock during the investigation period. The spreadsheet response showed the number of cartons sold together with the sales value by month. COS provided a copy of its 2013 financial statements (**confidential attachment 1**). As the profit and loss statements provided are not recorded at category level we were unable to cross match the data directly to the financial statements. COS demonstrated its internal inventory system which was able to produce reports detailing all national paper sales by volume and value. We selected the month of July 2012 for closer examination. COS demonstrated how the information was extracted from their accounting system and we were able to cross match the data for July 2012 (**confidential attachment 2**) to the sales information provided in the response. COS then demonstrated how the consolidated data from the system rolled up to provide a total national paper sales figure (**confidential attachment 3**) which we were able to cross match to the financial statements.

We are satisfied that the sales information provided by COS is accurate and complete for those sales of [REDACTED] products during the investigation period.

4.2.4 Profitability of sales

The Commission reviewed the sales data provided by COS (**confidential appendix 1**) and compared the sales data to data provided from [REDACTED] of the goods exported for COS. The results show that on average for the 2013 financial year both A4 and A3 copy paper was sold at a profit, with the profitability level being [REDACTED]% for A4 and [REDACTED]% for A3 copy paper.

It should be noted that these calculations have been made using the average selling price of all A4 and A3 paper over the course of the investigation and that the selling, general and administrative costs (SG&A) have been estimated using the financial statements which include all product ranges sold by the company, not just copy paper. Therefore, the Commission notes that the profitability level is likely to be overstated at this stage. COS stated that the paper category of sales runs at a much smaller profit margin level than other categories of products sold.

See notes in paragraph 4.4 regarding selling, general and administrative cost levels which have affected the profitability levels.

4.3 Selling, general and administrative (SG&A) costs

We used the data provided in the 2013 financial statements to calculate a SG&A figure of [REDACTED]%. COS advised that the financial statements included sales of all product ranges, and cannot be broken down into individual product category levels. COS stated that whilst copy paper accounts for approximately [REDACTED]% of the business in sales, the associated logistical costs account for approximately [REDACTED]% of all costs. These additional costs are caused by the higher handling costs associated with the supply of copy paper. Therefore the SG&A costs associated with copy paper are likely to be much higher than the [REDACTED]% calculated, however this cannot be identified from the financial statements. Therefore the profitability levels stated in paragraph 4.3 are overstated.

5 WHO IS THE IMPORTER AND EXPORTER

5.1 Who is the importer?

We reviewed the documents provided in respect of the selected shipments when visiting [REDACTED]. Details from that visit can be found in the visit report located on the electronic public record at www.adcommission.gov.au We note that:

- the goods are ordered by COS;
- an invoice is raised by [REDACTED];
- [REDACTED] appears as the shipper on the bill of lading and [REDACTED] appears as the consignee;
- [REDACTED] appears as the importer on the Customs declarations;
- [REDACTED] is responsible for all expenses and is invoiced directly by the freight forwarder;
- The Australian customer pays [REDACTED] directly ([REDACTED] has no role in the invoicing or payment process). [invoicing, shipping, documentation and payment processes]

We consider COS to be the beneficial owner of the goods at the time of importation, and therefore the importer.

5.2 Who is the exporter?

The Commission will generally identify the exporter as:

- a principal in the transaction, located in the country of export from where the goods were shipped, who gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or their own vehicle for delivery to Australia; or
- a principal in the transaction, located in the country of export, who owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

It is common for traders and other intermediaries to play a role in the exportation of the goods. These parties will typically provide services such as arranging transportation, conducting price negotiations, arrange contacts with the producer, etc.

In such cases, the trader typically acts as an intermediary who, although one of the principals, is essentially a facilitator in the sale and shipment of the goods on behalf of the manufacturer. Typically the manufacturer as a principal who knowingly sent the goods for export to any destination will be the exporter.

Therefore, depending on the facts, the Commission considers that only in rare circumstances would an intermediary be found to be the exporter. Typically this will occur where the manufacturer has no knowledge that the goods are destined for export to any country and the essential role of the intermediary is that of a distributor rather than a trader.

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Subject to further inquiries, we are satisfied that [REDACTED] can be considered the exporter of copy paper imported by COS. To our knowledge, this entity is a principle in the country of export, which manufactures the goods and gave up the goods for shipment directly to COS.

6 ARMS LENGTH

In determining export prices under s. 269TAB(1)(a) and normal values under s. 269TAC(1), the Act requires that the relevant sales are arms length transactions.

S.269TAA outlines the circumstances in which the price paid or payable shall not be treated as arms length. These are where:

- there is any consideration payable for in respect of the goods other than price;
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; and
- in the opinion of the Minister, the buyer, or an associate of the buyer, will, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

We reviewed the documentation for the selected shipments from [REDACTED] and did not find any evidence, in respect of the purchase of copy paper, that:

- there is any consideration payable for or in respect of the goods other than price;
- the price was influenced by a commercial or other relationship between COS, and its suppliers or an associate of the supplier; and/or
- COS was directly or indirectly reimbursed, compensated or otherwise received a benefit for or in respect of the whole or any part of the price.

7 RECOMMENDATIONS

From our investigations, we are of the opinion that, for the goods imported by COS from [REDACTED]:

- the goods have been exported to Australia otherwise than by the importer;
- the goods have been purchased by the importer from the exporters.

Subject to further inquiries with this exporter, we recommend that the export price for copy paper imported by COS from [REDACTED] can be established under s.269TAB(1)(a) of the Act, using the invoiced price, less deductions to the FOB level as required.

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8 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	COS sales data re [REDACTED] products for the investigation period
Confidential Attachment 1	COS annual report year ended 30 June 2013
Confidential Attachment 2	Selected paper sales by month for the 2013 financial year
Confidential Attachment 3	National paper sales figures for 2013 financial year