Australian Government

Anti-Dumping Commission

PUBLIC FILE

INVESTIGATION 225

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VISIT REPORT - EXPORTER

UPM (China) Co., Ltd

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

December 2013

CONTENTS

ABBREVIATIONS

$	Australian dollars
The Act	*Customs Act 1901*
ADN	Anti-Dumping Notice
The applicant	Australian Paper
COGS	Cost of goods sold
Commission	Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
FOB	Free On Board
FY	Financial year
GUC	Goods under consideration
IP	Investigation period
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
UPM	UPM (China) Co., Ltd
UPM AP	UPM Asia Pacific Pte Limited
UPM Australia	UPM Kymmene Pty Limited

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 verify information contained in the response to the exporter questionnaire (REQ) submitted by UPM (China) Co., Ltd. (UPM).

UPM's REQ consisted of background to its activities, exports sales data to Australia and other countries, domestic sales data, and cost to make and sell data. The REQ was supported by attachments.

Verified information obtained during the verification visit to UPM has been used to make preliminary assessments of:

- like goods;
- who is the exporter and who is the importer;
- export prices;
- normal values; and
- dumping margins.

1.3 Meeting details

Company	UPM (China) Co., Ltd Changshu Paper Mill No. 2, Xing Ye Rd. Changshu Economic and Technology Development Zone Jiangsu Province, China Date of visit: 11-13 December 2013 Head Office 23/F Grand Gateway Tower 2 3 Hongqiao Road Xu Hui District Shanghai, China 200030 Date of visit:16 December 2013
Dates of visit	11-13 and 16 December 2013

The following were present at various stages of the meetings:

UPM

11/12/2013 (Changshu Mill)	Production: Yunfeng XIAO, Lili ZHOU Supply Chain: Jane JIANG, Steve YANG Business Control: Judy ZHANG Sourcing: Vesa KOLU, Lydia ZHANG Customer Service: Kirinda BAKKER Legal: Wendy WENG
12/12/2013 (Changshu Mill)	Production: Yunfeng XIAO Supply Chain: York FANG, Jane JIANG, Steve YANG, Xiang HUANG, Yuechun GONG Business Control: Judy ZHANG Finance: Haihai SONG, Minghui XU Sourcing: Vesa KOLU Customer Service: Kirinda BAKKER

	Legal: Wendy WENG
13/12/2013 (Changshu Mill)	Supply Chain: York FANG, Jane JIANG, Steve YANG Business Control: Judy ZHANG Sourcing: Vesa KOLU Customer Service: Kirinda BAKKER Legal: Wendy WENG
16/12/2013 (Shanghai Office)	Sales: Jaakko NIKKILA, Eddie CHAN, Lewis JIN Supply Chain: York FANG, Jane JIANG, Steve YANG Business Control: Stella BAO, Judy ZHANG Finance: Lijun JIN Tax: Cecilia CHEN Sourcing: Vesa KOLU Customer Service: Kirinda BAKKER Legal: Wendy WENG

Anti-Dumping Commission

Michelle Gibson	Manager – Operations 2
Geoffrey Gleeson	Director – Capability
Candy Caballero	Director – Operations 3

A meeting was held with Kirinda Bakker, Marcus Lindh (UPM Australia) and John Cosgrave (lawyer) on 13 January 2014 at the Anti-Dumping Commission (Commission) offices in Canberra.

1.4 Investigation process and timeframes

We advised UPM 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 14 March 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.

1.5 Visit report

We explained to UPM 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 COMPANY INFORMATION

2.1 Company background

UPM is a manufacturing company incorporated in the Jiangsu Province, China. It is located in the Changshu Economic and Technology Development Zone. It is a wholly owned subsidiary of UPM Asia Pacific Pte Limited (UPM AP) which is a wholly owned subsidiary of UPM-Kymmene Corporation, the Finnish parent company of a global paper and forest products group. UPM-Kymmene Corporation was established in 1995 with the merger of Kymmene Corporation, Repola Ltd and its subsidiary United Paper Mills Ltd. UPM-Kymmene Corporation has over 100 manufacturing facilities in 17 countries around the world. UPM submitted a general company structure diagram in confidential appendix 1 of the REQ. It shows that the parent company, UPM-Kymmene Corporation, has other subsidiaries in India, Hong Kong, Korea and Japan.

UPM AP is a Singapore-based company that purchases and provides major imported manufacturing inputs to UPM for the production of copy paper that it exports to overseas markets or sells on the domestic market. UPM AP is UPM's regional export selling arm for sales to Australia and other countries.

Affiliated company UPM Kymmene Pty Limited (UPM Australia) is the UPM sales agent based in Australia. It does not take ownership of the imported products, rather, operates as a commission agent representing UPM AP in Australia, New Zealand and other countries in the Pacific Ocean.

2.2 Principal activities

UPM's principal activities are the production of coated and uncoated printing paper in the form of folios, reels and cut size (copy) paper. It manufactures these paper products for the overseas and domestic markets and sells these products on the domestic market. Export sales are conducted by UPM AP.

The Changshu Paper Mill has a current capacity of [redacted] for the whole mill. UPM's current production capacity of copy paper is about [redacted]. [*Mill capacity*]

The Changshu Paper Mill has two paper machines, paper machine (PM)1 and PM2. PM1 is the only machine utilised in the manufacture of copy paper and was built in 2005 with a total project investment of [redacted]. [*Mill investment*]

The Changshu Paper Mill is located in a 200 hectare site that has a harbour and jetty, power plant and water effluent treatment. Its production is primarily focussed on copy paper, the goods under consideration (GUC).

2.3 Accounting

UPM's financial year is the calendar year, 1 January to 31 December.

In its REQ, UPM provided the following accounting information:

- its Chart of Accounts;
- audited financial statements for 2011 and 2012; and
- balance sheet and profit and loss statement for the period July 2012 to June 2013.

At the visit, UPM provided:

- financial statements as of June 2013 in **confidential attachment COSTS 1**; and
- detailed profit loss statement to December 2012 in **confidential attachment COSTS 2**.

UPM's accounts are maintained in both Chinese RMB and in Euros. For exports sales to Australia, UPM's transactions [redacted] [redacted]. [*currency details]*

UPM uses an actual costing system based on monthly weighted averages.

Copy paper is produced only on PM1 and equates to [redacted]% of the total PM1 production volume. UPM have cost centres for each paper machine and also for each product made on the paper machine. Accordingly, the relevant cost centre that was significantly interrogated during the verification process was the cost centre for cut size paper manufactured on PM1.

UPM advised that it uses Hyperion and a fully integrated SAP system. A connection to these systems was available in the meeting room and we were able to observe the interrogation of the system during the verification process.

2.4 Related parties

UPM informed us that it does not make sales to any related parties. Apart from [redacted], UPM does not receive any other raw materials from related parties. [*raw material sources*]

2.5 Manufacturing Details

[redacted] [*Sourcing and Manufacturing details*] [redacted], [*Sourcing arrangements*] UPM imports a number of materials used in the production of copy paper, including the following: pulp, coating starch, wet end starch, paper latex, internal sizing, polymer and silica. Aside from pulp which has 0% customs duty, most raw materials imported in the production of copy paper have approximately [redacted]% customs duty. The VAT rate for all relevant imported raw materials is 17%. This information is contained in **confidential attachment GEN1**. Some quantities of starch and latex are also purchased from Chinese domestic suppliers.

UPM have a ratio of raw materials used in the manufacture of goods for the export and domestic markets which is approved by Chinese Customs each year. Each month UPM provide Chinese Customs with the actual ratio which Chinese Customs verify through a direct link into UPM's production system. UPM maintain a handbook recording the details of the raw material usage which is also verified by Chinese Customs.

It was explained to us that Chinese Customs requires UPM to pay a deposit for potential VAT or customs duties on imported raw materials. After UPM has processed the materials in the production of the goods for export, Chinese Customs verifies the use of the imported raw materials through export documents and a special customs handbook. Chinese Customs then provides a refund to UPM for any deposit made in relation to the VAT or customs duties for the imported raw materials.

Some raw materials are purchased by UPM directly from the Chinese suppliers and incur VAT only if they are used in the manufacture of goods destined for the export market.

For raw materials purchased by UPM directly from overseas suppliers, VAT is paid but is credited for goods sold on the domestic market.

UPM provided us with additional information on the effects of [redacted] arrangements in **confidential attachment DOM 1.** [*sourcing arrangements*]

2.6 Manufacturing Costs and Margins

UPM explained that [redacted] [*Cost and Margin details*]

We queried how [redacted]. UPM explained that the starting price is the sale price [redacted] to the export customers. They then deduct [redacted] [*Cost and Margin details*]

A margin of [redacted] for UPM AP's fixed costs is [redacted]. [*Margin details*]

2.7 Production range

PM1 is the only paper machine used to make the GUC with copy paper comprising [redacted]% of total PM1 production volume. The remainder of paper produced on PM1 is uncoated folios and reels and a small volume of copy paper outside the goods description (odd sizes). Of the GUC manufactured on PM1 the majority is [redacted] and [redacted] in A4 size. [*Product details*]

UPM also manufactures coated and uncoated folios and reels on PM2.

The sheeting plant at UPM is only used for copy paper with a separate machine used for folios which are cut into much larger sizes than copy paper. The sheeting machines for copy paper and folios are located in separate buildings and have different cost centres. During our visit we conducted a tour of the copy paper sheeting facility and sighted copy paper for domestic and export sale being cut and packaged for sale.

2.8 Production Process

The production process of copy paper is as follows:

1. Wood pulp ([redacted]) [*types of pulp used*] that is currently imported [redacted], [*sources of pulp*] are prepared and blended with fillers, starch, sizing agents, dyes and minor chemicals. No wood pulp is manufactured at the mill. [*Wood Pulp details*]
2. The pulp mixture is pumped to a headbox which forms the paper sheet on a horizontal plane. This goes through a mesh belt or wire where water is drained by gravity and by suction.
3. At the end of the wire, the paper sheet goes through a series of press rolls where more water is removed by pressure.
4. The paper sheet passes around a series of steam heated drying cylinders where the remainder of the water is removed.
5. A layer of starch is added to the surface of the paper sheet. It is dried further using heated cylinders and a calender process to make the paper smooth and glossy.
6. The paper sheet is then rolled into parent rolls. Some rolls are rewound on a machine winder into smaller reels for converting at the sheeting plant. These smaller reels are cut into A4, A3 or other cut sheet sizes.
7. The cut size paper is then wrapped, packed into boxes and then palletised in the finishing line.
8. Any rejected cut size paper, at a yield rate of [redacted]%, is repulped and returned to the production process.

Further details of UPM's production process is contained in its REQ .

During the verification visit we undertook a tour of the Changshu paper mill and sighted the production process.

3 THE GOODS UNDER CONSIDERATION AND LIKE GOODS

3.1 The goods

The goods under consideration (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 chemi-mechanical process and/or from recycled pulp.

3.1.1 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.

3.2 Like goods – preliminary assessment

UPM exported copy paper with the following whiteness and grammage characteristics to Australia in the investigation period:

[redacted]). [*Product details*]

All of the above models of copy paper were also sold on the Chinese domestic market during the investigation period. UPM China clarified that it did not manufacture any copy paper with recycled content.

Copy paper is categorised into [redacted] product codes based on the whiteness measurement.

[Table redacted]

In addition to selling the above [redacted] product codes on the domestic market, UPM also sell an additional [redacted] product codes of copy paper. These [redacted] product codes, which are sold only on the domestic market, are:

[*Table removed]*

We queried UPM about the carbon neutral copy paper it provides [redacted]. UPM explained that it provides [redacted] with copy paper in packaging that is branded carbon neutral but that the carbon credits are purchased by [redacted][*Customer details*]

We asked UPM about any environmental certification it may have. UPM explained that it sells FSC (Forest Stewardship Council) certified copy paper on the domestic and Australian export markets. [redacted][*Certification details]*

We consider that copy paper sold domestically by UPM has characteristics closely resembling those of the goods exported to Australia in the investigation period. Whilst there is some difference between copy paper sold with environmental certification and that without, the exported and domestically sold copy paper are physically alike and functionally alike.

The goods are commercially alike in that they are sold to wholesalers, distributors and small and large retailers to supply government, business and home user customers. Copy paper sold with environmental certification attracts a different market to copy paper without environmental certification (e.g. government agencies and larger corporations prefer FSC certified paper) and in this aspect certified and non-certified copy paper are not commercially alike.

Based on information in the application, information in UPM's response to the exporter questionnaire and information collected during the verification visit, we consider that copy paper sold by UPM on the domestic market in China are like goods to the copy paper it exported to Australia in the investigation period.

Section 6.4 of this report considers the most appropriate grades to compare to the copy paper exported to Australia in the investigation period.

4 EXPORT SALES TO AUSTRALIA

4.1 General

UPM AP is the regional export selling arm to Australia, Singapore, Malaysia, Myanmar, Thailand, Indonesia, Vietnam and Philippines. [redacted]. [*details of UPM AP operations*] The UPM group has several sales offices in export market countries including Australia, Korea, Hong Kong, Japan and Thailand.

As discussed in section 2.6 [redacted] covers the costs incurred by UPM AP in relation to export sales to Australia, including commission paid to UPM Australia. UPM explained that the commission paid to UPM Australia is [redacted] and suggested that any normal value adjustment should use this amount. We consider that an adjustment should take into account the full amount [redacted]. We examined the 2012 audited financial statements of UPM AP and calculated its distribution and marketing, administrative and finance expenses as a percentage of total sales revenue. We applied this percentage to the total export sales revenue to Australia and then divided this amount by the total sales volume to Australia to arrive at a per tonne expense. We found that the [redacted] covered the full allocation of expenses. [*Details of export selling expenses*]

4.1.1 Volumes and sales routes

UPM AP exported the following volumes of copy paper to Australia during the investigation period:

[Table redacted]

In its REQ, UPM provided a detailed export sales spreadsheet listing sales from UPM AP to [redacted] Australian customers. The export sales spreadsheet included the following information:

- Customer;
- Product code;
- Invoice number and date;
- Delivery terms;
- Quantity (tonnes);
- Gross and net invoice value;
- Rebates;
- Rates of exchange;
- Shipping terms;
- Payment terms;

- Inland transport;
- Terminal handling, port & other;
- Ocean freight;
- Marine insurance;
- Cartage charge and customs duty at port of destination (where relevant);
- Packing;
- Sales commission; and
- VAT payment.

4.1.2 Export sales process

The sales process was described as follows:

- UPM Australia reviews its pricing on a quarterly basis based on guidelines set by the UPM AP sales team. When setting out pricing guidelines, UPM AP's sales team consider trends in the paper industry, manufacturing costs and customer sentiments.
- Newly agreed prices are then offered to Australian customers on a one-on-one basis rather than a public price list. UPM Australia, on behalf of UPM AP, negotiates the price and commercial terms with Australian customers, in accordance with UPM AP's pricing guidelines.
- Neither UPM AP nor UPM Australia has any standing agreement with Australian customers.
- Based on the agreed quarterly pricing, Australian customers place purchase orders with UPM Australia.
- UPM Australia enters the purchase order into the sales system which is sent to UPM and generates a production request to the Changshu Paper Mill. Upon receipt of the production request, the Changshu Paper Mill confirms the request and schedules the production of the goods.
- The Changshu Paper Mill undertakes the production and arranges the delivery through UPM's logistics department.
- [redacted] [*Shipping Terms*] It takes approximately [redacted] weeks between the placement of the purchase order until the delivery of the goods to the Australian customer.

4.1.3 Terms of trade

UPM AP indicated in the REQ that it sends its goods to [redacted] [*Customer and delivery terms details*]

4.1.4 Date of sale

The detailed sales spreadsheet included a column titled 'invoice date' and column titled 'date of sale'. In all cases, the two columns had identical dates. UPM have nominated the invoice date as the date of sale for both export and domestic sales.

4.1.5 Payment terms

The detailed sales spreadsheet shows that the payment terms of UPM's export sales range from [redacted] days from the date of invoice. UPM AP receives payment in respect of export sales to Australia.

4.1.6 Currency

UPM AP sells copy paper to its Australian customers in [redacted]. In the REQ, UPM converted its sales amounts from [redacted] Accounting practices in China require accounting records to be kept in RMB and accounting practices of the UPM Global Group require accounting records to be kept in EURO. [*Sales currencies*]

4.1.7 Ocean freight

The initial ocean freight information provided by UPM in its REQ was amended to reflect the weighted average costs of its ocean freight during the investigation period. UPM explained that [redacted] tonne is a reasonable calculation for its ocean freight to the seven ports in Australia. This amount also includes terminal handling and port charges in Shanghai.

4.1.8 Sales commission

As indicated in section 2.1, UPM Australia is a related company based in Australia representing UPM AP in Australia and New Zealand.

Based on an agency agreement, a commission is paid to UPM Australia [redacted]. The agency agreement is reviewed on a yearly basis. The current commission rate paid to UPM Australia is [redacted]. During the Commission's visit to UPM Australia in November 2013, UPM Australia's expenses and the commission it receives were verified. The visit team found that UPM Australia is trading profitability in respect of its role in imports of copy paper from China. We are satisfied that the commission value covers the costs incurred by UPM Australia in respect to its role as a sales agent for UPM. [*Agency commission details*]

4.1.9 Discounts, rebates and allowance

Rebates

<u>Rate of Rebate</u>

UPM explained that UPM AP provides rebates to key clients, in the following manner:

[redacted]

[redacted] [*Customer and rebate details*]

<u>Payment of rebate</u>

UPM AP pays rebates in the following manner:

[redacted]

[*Customer details and rebate payment details*]

Discounts and allowances

UPM indicated that UPM AP did not offer any discounts or allowances to Australian customers. Aside from rebates to selected customers, UPM indicated that no other financial assistance is provided to Australian customers.

4.2 Verification of domestic and export sales to audited financial statements

We sought to verify the completeness and relevance of the domestic and export sales revenues and volumes up to the audited financial statements. We conducted the verification of both domestic and export sales volumes and values together, as discussed below.

We were provided with **confidential attachment COSTS 3** which provided SAP screen prints of sales revenue from different cost centres within UPM and reconciliation of these figures to the total turnover in the 2012 UPM income statement.

We were able to reconcile the total turnover figure in this spreadsheet upwards to the audited financial statements for 2012 and downwards to the detailed domestic sales listing. We were able to reconcile the turnover in the financial statements to the sales revenue in the management accounts taking into consideration a minor audit adjustment for un-invoiced deliveries at the end of the period and for a mill adjustment.

The total turnover figure was comprised of sales of paper manufactured at the Changshu mill and sales of imported paper ([redacted]). We were provided with this sales revenue breakdown. [*Turnover Detail*]

The total sales turnover for products manufactured at the Changshu mill was broken down into paper produced on PM1 and PM2. From here we could see the breakdown of cut size paper produced on PM1. We were provided with screen prints from SAP for all of these figures. The revenue figure for cut-size paper produced on the PM1 reconciled to the figure in the domestic sales listing with a very minor variance (around [redacted]%).

We were provided with the SAP screen shots showing the domestic sales revenue for cut size paper in 6-month increments from Jan 2012 – Jun 2013. We were able to reconcile the total sales revenue in the detailed domestic sales listing for Jul-Dec 2012 and Jan-Jun 2013 to the SAP reports for these periods.

We were able to verify the export sales revenue in the detailed export sales listing to the financial statements of UPM AP.

Tab 3 of confidential attachment COSTS 3 contained total turnover data for 2012 which we could reconcile to the total sales figure in UPM AP financial statements for 2012. Audit adjustments were made for [redacted]. The figure before the audit adjustment was the total of UPM AP sales of Changshu manufactured paper and European paper. Sales of Changshu paper was broken down by paper manufactured on PM1 and PM2, and paper manufactured on PM1 was then broken down into cutsize (copy) paper ([redacted]% of total PM1 production) and other paper for calendar year (CY) 2012. We were provided with screen prints from SAP showing these amounts and were able to reconcile the total export sales revenue for copy paper for CY 2012 up to the UPM AP audited financial statements. [*Adjustment details*]

The sales revenue for cutsize paper was only able to be provided at the aggregate level of total export sales to all countries including Australia. We were provided with SAP sales revenue data for export sales of cutsize paper to all countries for Jul-Dec 2012 and Jan-Jun 2013. We were able to reconcile the figure for Jul-Dec 2012 to the UPM AP financial statements.

We calculated the Australian export sales revenue from the detailed sales listing as a percentage of the total export sales revenue for cutsize paper from the SAP data. We could see that the percentage was the same as the percentage that was calculated from the data provided by UPM in the 'turnover' tab of its REQ.

We consider the domestic and export sales data provided by UPM to be complete and relevant.

4.3 Verification of export sales to source documents

4.3.1 Exports to Australia

Prior to the visit, we selected six export sales from the detailed Australian export sales spreadsheet and requested that UPM provide source documents in relation to each invoice.

For each selected invoice, UPM provided copies of the following documents at **confidential attachment EXP1**:

- purchase order;
- order confirmation;
- commercial invoices;
- packing list;
- shipping document;
- proof of payment from Australian customer to UPM AP;
- rebate settlement report;
- credit note/adjustment note evidencing rebate;
- inland transport documents;
- way bills;

- invoice for port, handling and clearance (where applicable); and
- invoice for customs duty (where applicable).

Apart from a couple of items (as described below), we were able to match the sales information in the source documents to the data contained in the detailed sales spreadsheet. We reviewed and verified details of the sales, such as customer, invoice number, volume, value, delivery and payment terms to invoices, way bills and proof of payment documents. We were satisfied that invoiced amounts matched payment advices and UPM AP's bank documents. The source documents, including proof of payment of the selected sales, are at **confidential attachment EXP1.**

4.3.2 Quantity

We were able to verify the export sales quantity indicated in the spreadsheet with purchase orders, order confirmations, commercial invoices and way bills.

4.3.3 Shipping terms

We were able to verify the shipping terms indicated in the spreadsheet with purchase orders, order confirmations, commercial invoices, and where applicable with DDP terms, invoices for port, handling and clearance and customs duties.

4.3.4 Payment terms

We were able to verify the payment terms indicated in the spreadsheet with order confirmations and commercial invoices. We reviewed proof of payment and payment advices. We verified that of the six selected export sales, all but one complied within the agreed payment term. One customer paid 5 days out of the agreed payment term which we considered to be acceptable. Overall, we considered that the customer payment advice matched the payment terms in the spreadsheet.

4.3.5 Inland transport

The spreadsheet of export sales included amounts for inland transportation expenses for transportation by truck from the Changshu Paper Mill to the Changshu Mill jetty and by barge from the mill jetty to the port in Shanghai The spreadsheet also included amounts for inland transportation expenses from the Changshu Mill to the port in Shanghai via truck. UPM explained that it took [redacted] days for the goods to reach the port in Shanghai via barge, but only a few hours via truck. Whilst the barge was the usual method of transportation because it is much cheaper, some urgent orders will be sent via truck in order to meet shipping deadlines.

During the verification visit, we asked for evidence to support the amounts of these inland transport charges and were provided with local transport documents which are included in **confidential attachment EXP1**. The transport documents indicated a flat rate for the transport of a 15 tonne container from the Changshu Mill Jetty to the Port of Changshu. We found some minor variation (less than 1%) when comparing the spreadsheet with the source documents. Notwithstanding the minor variation, we found the amounts set out in the spreadsheet to be reliable.

4.3.6 Residual VAT

The spreadsheet of export sales included amounts for payment of VAT. UPM explained that when exporting the GUC, it incurs a residual VAT on domestic materials used for exported goods. We considered UPM's documents evidencing "VAT transfer out" amounting to a rate of [redacted]% of its total exports value. UPM provided us with a copy of its residual VAT on exports and a spreadsheet reconciling VAT relating to export sales in SAP at **confidential attachment EXP2**. We verified the cost of non-deductible VAT expenses production of exported goods, and we are satisfied the percentage rate is relevant and reliable.

4.3.7 Ocean freight

UPM indicated to us that the ocean freight charges, as set out in the export sales spreadsheet, included terminal handling, port and other charges in Shanghai. UPM provided us with an email from a carrier company at **confidential attachment EXP3** showing that carrier's terminal handling charge from the Port of Shanghai. The rate mentioned is consistent with the rates indicated by UPM.

Initially we rejected the ocean freight charges set out in the export sales spreadsheet because we could not verify them. At our request, UPM provided further information and documentation regarding their ocean freight arrangements to destination ports in Australia at **confidential attachments EXP4, EXP5 and EXP6**. Print outs from UPM's [redacted] system were provided to us at **confidential attachment EXP7** showing different ports of loading: Changshu jetty terminal, Changshu port or the Shanghai port. At **confidential attachment EXP8**, spreadsheets show the different choices available to UPM when selecting ocean freight. For example, UPM uses [redacted] different carriers from time to time and has a choice of using 20 or 40 feet containers. As an example, UPM provided us with a copy of a shipping service contract with a carrier at **confidential attachment EXP9**. At **confidential attachment EXP10**, UPM set out the weighted average of freight charges over 4 quarters, from Q3 2012 to Q2 2013. This data shows that during the period of investigation, the weighted average cost of ocean freight was [redacted] tonne to Australia, which as noted above, included terminal handling charge.

4.3.8 Marine insurance

UPM informed us that its marine insurance is covered by a global policy. Marine insurance was calculated to be [redacted]% of the net FOB amount. We sighted a document confirming UPM's global insurance policy.

4.3.9 Australian cartage charges and customs duty

For export sales delivered on DDP terms at confidential attachment EXP1, we reviewed and verified invoices from a customs broker evidencing the amounts for cartage charges (**confidential attachment EXP11**. We also verified customs duties paid as set out in disbursements issued by UPM AP's customs brokers. We were satisfied that the amounts were reliable.

4.3.10 Rebates

UPM indicated to us that aside from rebates to selected customers, no further financial assistance were provided to Australian customers. We asked UPM to provide us with documentation that would support UPM's representation that no further financial assistance was provided with respect to sales in Australia. We reviewed and verified all transactions between UPM AP and [redacted]. The following documents were provided to us [redacted] under **confidential attachment EXP12**.

- rebate settlement reports;
- settlements of rebate agreements in SAP;
- open item statements in SAP;
- overview statements of rebate credit memos issued;
- 12 month invoice list; and
- copies of banking transactions.

In the documents above, we observed the accrual of rebates alongside amounts owing [redacted] We observed accrued rebate amounts that were consistent with rebate rates provided to us by UPM. [*Customer details*]

Based on the information provided to us, we found no evidence of any further rebates or financial assistance provided by UPM to its Australian customers.

4.3.11 Export commission

UPM provided us with a copy of UPM AP and UPM Australia's agency agreement, dated January 2012 in its REQ. The agency agreement establishes UPM Australia's responsibilities, such as sales and customer management and credit risk management, in exchange for a commission as "compensation for its sales services" to UPM Australia. The agency agreement states that it is to be reviewed annually.

UPM also provided us with a document amending the agency agreement to update its commission rate[redacted]. The commission rate set out in the agency agreement reconciles with the commission rate in the spreadsheet. [*Commission details*]

4.3.12 Conclusion

Having been able to reconcile UPM's export sales spreadsheets down to source documents, we are satisfied that these spreadsheets are relevant and reliable.

4.4 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 will be a person in the country of export who owns, or who has previously owned, the goods but need not be the owner at the time the goods were shipped.

Where there is no principal in the country of export the Commission will normally consider the exporter to be the person who gave up responsibility for the good as described above.

During the verification visit, it was explained to us that UPM produced copy paper for the export market according to UPM AP's directions. Importantly, during the process, UPM AP maintained ownership of raw materials provided to UPM for the production of export copy paper. While UPM produced the copy paper in the Changshu Paper Mill, UPM AP:

- is identified as the "Principal" in purchase orders and invoices;
- is listed as the consignee on waybills;
- instructs UPM on customer orders (customer identity, details of copy paper ordered and quantity);
- pays cartage charges and customs duty for goods sold on DDP terms; and
- sends the goods for export to Australia and is aware of the identity of the Australian end customer of the goods.

We note that UPM AP pays UPM a 'processing fee' for the production of export copy paper. The processing fee covers any costs that are incurred by UPM in the production of copy paper on behalf of UPM AP.

Due to the circumstances of the export goods being manufactured by UPM and sales to Australia being made by UPM AP, we considered treating the two entities as one for the purpose of calculating a dumping margin. Where entities are 'collapsed' the actions of one member of the entity are taken to represent the actions of the whole.

The issue of considering multiple entities as a single entity for the purpose of calculating dumping margins was considered by a World Trade Organisation dispute settlement panel dealing with the case of Korea – Anti-Dumping Duties on Imports of Certain Paper from Indonesia[1].

The panel stated that:

"*In our view, in order to properly treat multiple companies as a single exporter or producer in the context of its dumping determinations in an investigation, the IA has to determine that these companies are in a relationship close enough to support that treatment.*"

It also stated that entities could be treated as a single entity where:

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[1] WT/DS312/R

"*the structural and commercial relationship between the companies in question is sufficiently close to be considered as a single exporter or producer.*"

The panel considered that common management and ownership are indications of a close legal and commercial relationship and such companies "*could harmonize their commercial activities to fulfil common corporate objectives*."

The Commission's Dumping and Subsidy Manual outlines circumstances in which related producers and selling entities may be 'collapsed' and treated as one entity. The manual describes circumstances where the producer or exporter is related to a separate entity which undertakes the domestic sales functions on behalf of the corporate group.

In this instance, UPM is wholly owned by UPM AP and manufactures and sells the goods on the domestic market. In the case of export sales, UPM manufactures the goods on behalf of UPM AP, with export sales being carried out by UPM AP.

One REQ was submitted by UPM, providing relevant information and data about the entire domestic and export manufacture and sales process. This included the provision of information and data on behalf of UPM AP. Similarly, during the exporter verification visit information was provided to the visit team relating to activities undertaken by both UPM and UPM AP.

During the verification visit it was explained that the arrangement whereby UPM manufacture the export goods on behalf of UPM AP was set up for the purpose of accessing tax benefits.

We noted that several staff who listed on the UPM AP organisation chart (**confidential attachment EXP13**) had UPM (China) Co., Ltd. printed on their business cards. Some staff are also based at the UPM Changshu Paper Mill.

The interlinked nature of the two companies was also highlighted in UPM's explanation that whilst UPM AP purchase the raw materials, the negotiations and order placements are carried out by UPM. UPM AP pays for the raw materials from a legal entity point of view whilst UPM does the administrative work.

Considering the above detailed close structural and commercial relationships between UPM and UPM AP, we consider that it is appropriate to consider the two companies as a single entity for the purpose of calculating a dumping margin. UPM are wholly owned by UPM AP and there is a close commercial relationship between the two parties.

4.5 The importer

We consider that for export sales of copy paper, the Australian customers shown on commercial invoices provided to us were the beneficial owners of the goods at the time of importation. We noted that each of the Australian customers:

- negotiated its price and terms and conditions; and
- were named as the notify party on the waybills.

We consider the Australian customers to be the importers.

4.6 Arms length

In respect of export sales to Australia during the investigation period we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- 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.

As indicated in section 4.1.9 above, certain customers were reimbursed for part of the price through a system of rebates. We consider that the provision of rebates by UPM AP is normal, established business practice based on clear agreements and the amounts of rebates are quantifiable at the time of the sales. In addition, based on widely differing terms of sales among [redacted] customers receiving rebates, we are satisfied that these sales resulted from real bargaining. [*Customer numbers*]

Pursuant to section 269TAA(1A) of the Act, having regard to all the circumstances of the sales in question including the rebates paid to certain customers, we consider the export sales can be treated as arms length transactions.

4.7 Export price – preliminary assessment

We consider that:

- the goods have been exported to Australia otherwise than by the importer;
- the goods have been purchased by the importer from the exporter; and
- the purchases of the goods by the importer were arms length transactions.

We recommend that the export price be determined under subsection 269TAB(1)(a), as the price paid by the importer less any charges incurred after exportation. The weighted average quarterly free-on–board (FOB) export prices on cash terms in Chinese RMB per tonne are summarised in the table below:

[Table redacted]

Details of the export price calculations are at **confidential appendix 1**.

5 COST TO MAKE & SELL

5.1 Introduction

This chapter of the report details our verification of UPM's domestic cost to make and sell like goods. As discussed at section 3.2, the exact models of copy paper that are exported to Australia are also sold on the domestic market. We consider that the cost to make the copy paper for export would not vary from the cost to make the same models for sale on the domestic market.

In its exporter questionnaire response, UPM provided cost to make and sell (CTMS) data for the goods, for each month of the investigation period. At the visit UPM explained that it did not record costs separately for A3 and A4 paper and for different grammages of paper because there is very little difference between the costs. As previously noted in this report, UPM does not use recycled content to manufacture any of the goods. UPM advised that as the copy paper sold on the domestic market and exported to Australia are identical, the cost to make is the same.

The Changshu mill is a profit centre and contains two further profit centres for the PM1 and PM2. Within the PM1 and PM2 there are profit centres for each of the product groups. The PM1 contains profit centres for [redacted]. UPM's terminology for copy paper is 'cut size paper'. [*Profit Centre details*]

UPM does not use standard costing and provided actual costs in the CTMS data

5.2 Production volume

The variable cost analysis spreadsheet (**confidential attachment COSTS 4**) contained the cut size production volume figure for the month of March 2013 which we were able to reconcile to the production summary report for March 2013 **(confidential attachment COSTS 5).** The production summary report listed production volume by product code and market destination (export or domestic). In addition we were provided with screenshots from the production system showing the March 2013 production volumes for the PM1 and PM2, by product type -cutsize, reel, folio, (**confidential attachment COSTS 6**, 'From production system' tab). We were able to reconcile the figure for cut size to the figure in the variable cost analysis spreadsheet and the production summary report for March 2013.

5.3 Manufacturing costs

5.3.1 Upwards verification to financial statements

We selected the month of December 2012 for upwards verification of UPM's CTMS data to its audited financial statements. As part of its response to the exporter questionnaire UPM provided a copy of its 2012 annual report which includes the financial statements and auditors report.

We started with the unit CTMS figures provided by UPM in appendix G.4 of its response to the exporter questionnaire. Appendix G4 had CTMS data at the levels of material costs, direct labour, manufacturing overheads and depreciation. At the visit UPM provided us with a version of the appendix G4 containing additional breakdown of these cost elements (**confidential attachment COSTS 7 – detailed costs in G4 and G5).** We used this version of the appendix G4 for upwards and downwards verification of CTMS.

The appendix G4 data is denominated in RMB and the higher level reports are denominated in EURO so we converted the costs in G4 to EURO. We multiplied the unit cost in EURO by the production volume for that month to arrive at total CTMS figures in EURO for the month of December 2012.

For each CTMS element (material costs, direct labour, manufacturing overheads and depreciation), UPM was able to reconcile the appendix G4 figures up to management accounts which contained the detailed CTMS for cut size paper, on a monthly basis for the period January 2012 to June 2013 **(confidential attachment COSTS 8 – CS MA spreadsheet**).

We could see that all costs in the appendix G4 were able to be reconciled upwards to the CS MA spreadsheet. We noticed that two line items in the CS MA spreadsheet had not been included in the appendix G4 data. We queried why these items had not been included. UPM advised that the first line item [redacted] had been included in the appendix G4 under selling costs – not CTM. It advised that the second line item [redacted] had not been included because we had requested the CTM data as opposed to the cost of goods sold (COGS) data. We were satisfied with these explanations. We could see that all other cost elements in the CS MA spreadsheet had been included in the appendix G4 data. [*Line item details*]

We were provided with the Dec 2012 management accounts ('Dec MA' tab of COST 19) for the mill, which provided a breakdown by the two paper machines (PM1 and PM2) and by the product type manufactured on each machine (cut size, folio or reel). We were able to reconcile the material costs in the appendix G4 to the corresponding figures in the December 2012 management accounts.

We were able to see that the figures in the management accounts for cut size, reels and folios made on PM1 summed to provide the total figure for the PM1. We were able to see the product items comprising PM2 and that the total figures for all products on PM1 and PM2 summed to provide the total figure for the mill.

We were provided with a print out from the management accounts showing the monthly EBITDA (earnings before interest, taxation, depreciation and amortisation) for 2012. We could reconcile the total PM1 December EBITDA amount with the figure in the detailed December 2012 management accounts spreadsheet. We were provided with the 2012 management accounts ('2012 MA' tab of COST 19) showing the EBITDA figure for the year. We were able to reconcile the 2012 EBITDA with the sum of the monthly EBITDA figures in the 'Dec MA' tab.

We were provided with a screen print of the management accounts for 2012 showing the operating profit (financial accounts comparable) in RMB ('2012 MA' tab of COST t 19/24). UPM then provided reconciliation to the EURO operating profit figure from the 'Dec MA' tab. UPM then provided us a reconciliation of the MA operating profit figure to the operating profit figure in the income statement of the 2012 annual report ('FAMA reconcile' tab of **confidential attachment COSTS 9**. We could reconcile the operating profit result to the figure in the audited financial statements.

We were able to trace the costs in G4 to costs for all paper produced on PM1, then all produced at Changshu mill, through to management accounts and financial statements. Through this exercise we were satisfied that the costs provided by UPM in its response to the exporter questionnaire are complete and relevant.

5.3.2 Downwards verification

We selected the month of March 2013 for detailed verification of the cost to make and sell data provided in the exporter questionnaire response, back through issues to production, inventories and invoices for the purchase of raw materials.

5.3.3 Raw materials

UPM's detailed appendix G4 shows material costs for fiber (i.e. pulp), filler (calcite), chemicals, energy, packing material, PMC and other variable costs. Fiber comprised [redacted]% of the total materials costs and was selected for detailed verification back to purchase invoices. We were provided with confidential attachment COSTS 4 – variable cost analysis for PM1. This spreadsheet contained itemised consumption volume, value and price on a monthly basis for the variable cost components. The information was provided in separate tabs for cut size paper, reels and folios with a summary page for all products produced on PM1.

<u>Pulp</u>

We examined the cost per kilogram [redacted] for cut size paper, folio paper and reel paper for the month of March 2013. We queried why the pulp costs per kilogram were slightly different between the three products (cut size, folio and reels). UPM advised that the costs recorded are the costs of pulp for the month in which the pulp was actually used. Sometimes the products sit unfinished in reels before being finished by being cut into either cut size paper or folio paper. At any one time UPM have around [redacted] tonne of unfinished goods sitting in stock. [*Pulp Types*]

We could trace the March 2013 unit cost for fiber in appendix G4, to the unit cost for pulp in the PM1 cut-size tab of confidential attachment COSTS 4. The pulp cost in confidential attachment COSTS 4 was comprised of costs [redacted] types of pulp:

[redacted]

Of these [redacted] pulp types, [redacted] pulp had the greatest consumption volume, contributing to [redacted]% of total pulp consumption. We selected [redacted] pulp for further detailed verification. [*Pulp Types*]

We calculated the total consumption volume and value for [redacted] for the month of March 2013. We sought to trace these figures back through production usage and inventories to pulp purchases.

We were provided with screen prints from SAP ('Raw material issue' tab of **confidential attachment COSTS 10**) which enabled us to reconcile the [redacted] pulp usage in March 2013 back through SAP cost of raw materials report to purchase documents for the pulp.

We were able to trace the March 2013 consumption volume and value back through a SAP report of the actual cost of [redacted] pulp used in the manufacture of copy paper (with a minor variance of less than [redacted]), to goods issued to production (including a conversion from wet tonnes to dry tonnes), to UPM's SAP report of pulp received from suppliers. We selected three of the five purchase invoices for further verification and were provided with copies of these invoices (**confidential attachment COST 11**). We were able to reconcile the volume and value of the [redacted] pulp on the invoice back to the goods received data in SAP, with a minor variance (less than [redacted]%).

We were provided with a full listing of UPM's pulp purchases which identified pulp purchased from other UPM companies (**confidential attachment COST 12**).

We analysed the weighted average cost per tonne of pulp purchased from related versus non-related companies (refer 'Pivot tab' of confidential attachment COST 12). We found that the volume of pulp purchased from related companies was small in comparison to the volumes purchased from non-related companies. The unit price of pulp from related parties was higher than the unit price of pulp from unrelated companies.

The purchase invoices for pulp that we selected for further verification listed [redacted] [*Pulp purchase arrangements*]

Discussion of ratio of different pulp types

We noticed that UPM's ratio of [redacted] pulp was different to the ratio contained in Australian Paper's submission dated 10 December 2013[2] (data derived from RISI). UPM use [redacted]. We asked UPM how the ratio of different pulp types was derived and if the ratio remained constant. UPM explained that the pulp ratio remained constant with different types of pulp providing different properties to the finished paper. [redacted] pulp provides stiffness to the paper which is particularly important for copy paper. [redacted] pulp provides strength, which is not so critical for copy paper and with a higher cost usage of [redacted] pulp is kept to a minimum. [redacted] has less strength than [redacted] pulp but provides greater stiffness. [redacted]. [*Pulp yields*]

[2] Document number 20 on the public record, available at www.adcommission.gov.au

UPM provided us with a stock recipe for PM1 showing the ratios of pulps and filler utilised in the production of the different weights of paper (**confidential attachment COSTS 13**).

The information provided by RISI and referred to in Australian Paper's submission was specific to RISI's understanding of the pulp ratios used by UPM. We queried why RISI would have different figures to UPM's actual usage. UPM suggested that the RISI information was out of date explaining that several years ago UPM utilised a similar ratio of pulp to what RISI had suggested. Since this time UPM have optimised its processes (recipes/equipment) [redacted]. [*Pulp Yields*]

Pulp prices

We referred to Australian Paper's submission dated 10 December 2013 and the pulp prices it cites from the RISI Asia Pulp and Paper monitor. We queried why UPM's purchase prices for pulp were usually lower than these market prices.

UPM submitted that as a global company it had strong negotiating power and was able to achieve discounts from the market prices. The UPM Group has a global contract with key global suppliers and receives a contract price which is set for one year and provides a discount to the UPM Group. These discounts are part of long standing arrangements due to the purchasing power of the UPM Group.

We were provided with a package containing additional supporting documentation for UPM's pulp purchase prices (**confidential attachment COSTS 14**). This package contained:

- UPM's planned order of pulp;
- UPM's purchase prices of pulp for Jan-March 2013 (gross[3] and net);
- a summary of UPM's contracting and other commercial terms for pulp purchases; and
- a comparison of UPM's purchase prices of pulp and market prices.

We analysed the monthly gross and net prices of pulp from UPM's main suppliers of pulp for the period Jan-March 2013. UPM received discounts off the list price of [redacted]%.

The summary page of UPM's contracting and commercial terms for pulp purchases revealed that some discounts were [redacted]. [*discount details*]

We compared UPM's list and net prices to market prices (PIX China[4]) for the investigation period (IP). UPM's list prices are on par with market prices and its net prices are on average [redacted]%[redacted]%[redacted] for [redacted] pulp respectively.

[3] UPM explained that the gross price is the list price from the supplier and that they receive discounts from this list price from some suppliers.

Filler (calcite)

UPM purchase filler from [redacted] who are not related to UPM.

We sought to reconcile the March 2013 unit cost of filler (calcite) from appendix G4 through issues to production, inventory and back to purchase invoices. We were provided with screen prints from SAP ('Raw material issue' tab of confidential attachment COST 10) which we used for this purpose.

From the unit cost of filler in appendix G4, we calculated the total consumption volume and value for the month of March 2013. We were able to reconcile these totals to the figures in the SAP report of the actual cost of filler used in the manufacture of copy paper. We were able to trace the volume and value in the SAP report back through to issues to production, to UPM's SAP report of filler received from suppliers. There were a number of transactions showing UPM receipt of filler from suppliers, all on the one purchase order. We requested and were provided with the invoice showing the unit price per wet tonne and the goods receipt voucher and VAT receipt documentation (**confidential attachment COSTS 15**). We were able to reconcile the unit price of filler on the invoice and VAT receipt to the figure in the SAP report.

We were satisfied that the raw material data presented by UPM in its CTMS spreadsheets is accurate.

Australian Paper's briefing document to the visit team contained information regarding the cost of calcite. We examined the source information provided by Australian Paper and compared the costs to UPM's purchase documentation for calcite. We consider that UPM's purchase prices of calcite are reasonable.

Coal

We asked UPM about the source of its coal. UPM purchase [redacted] The purchase price of coal varies depending on the quality/grade of the coal. When UPM receipt the coal they measure its quality/grade and if the coal is of a higher (or lower) quality than the invoice specification, UPM pay the supplier an additional amount (or receive a partial refund). UPM provided us with a graph of UPM [redacted] purchase prices of coal for the IP (**confidential attachment COST 16**). [*Coal purchase details*]

We sought to trace the energy cost in appendix G4 back through to the issues to production through to invoices for UPM's purchases of coal. We selected the month of March 2013 and were provided with confidential attachment COSTS 6 (coal tab) for the purposes of this reconciliation.

Using the unit energy cost in appendix G4 and the production volume of copy paper for March 2013, we calculated the total energy cost utilised in the production of copy paper

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[4] FOEX's PIX index.

for the month of March 2013. We reconciled this figure to a SAP report of the costs of production for the cut size profit centres for March 2013. We sought the breakdown of this figure and were provided with a SAP report of the detailed energy costs for March 2013. This report contained the breakdown of the total energy cost into the different types of energy which included steam energy, energy natural gas, energy light fuel oil and coal energy. Coal was used to make steam energy which was used in the production process.

We sought to trace the coal cost from the SAP report back through issues to production and back to purchase invoices. We were provided with a print out of the 'issues to production' report from SAP. We were able to reconcile the total cost of coal from the issues to production report to the detailed energy cost report from SAP.

The issues to production report also contained the volume of coal consumed in March. We were able to reconcile this figure to the volume of coal consumed in a report of energy usage from the production system ('2013 powerplant report' tab of confidential attachment COSTS 6). UPM provided additional supporting documentation for the energy costs for March 2013 in the form of a SAP reports showing: the total energy cost for cut size and SAP reports showing the cost elements that contribute to the total energy cost (**confidential attachment COSTS 17**).

From the volume of coal consumed by PM1 and the net production of PM1, UPM calculated [redacted] tonne coal is consumed in the production of one tonne of paper. From the total volume and value of coal in the SAP issues to production report we were able to calculate a cost per tonne of coal.

We requested and were provided with source documentation for three purchases of coal used in the production of copy paper in March 2013 (**confidential attachment COSTS 18).** The documentation included purchase contract and VAT receipts from the Government of China showing quantity, unit price, total price excluding VAT and total price including VAT. We were able to reconcile the quantity, unit price and total price from the purchase contract to the Government of China VAT receipt. We were able to see that the unit purchase price of coal on the contracts (for coal purchased several months earlier) was similar to the unit price of coal calculated from the material documents list (SAP report of issues to production).

Starch

UPM purchase starch for use in PM1 [redacted].

We requested and were provided with purchase invoices for the supply of [redacted] starch and [redacted] starch from the [redacted] suppliers (**confidential attachment COSTS 19**). We compared these purchase prices to the prices suggested by Australian Paper in its application[5]. In this context, we considered UPM's purchase prices of starch to be reasonable. [*Starch purchase details*]

[5] Confidential attachment B-4.8 to Australian Paper's application.

Labour and depreciation costs

We performed the upwards verification of labour and depreciation costs as part of the upwards verification of costs to manufacture (section 5.3.1 of this report).

We sought to perform a downwards verification of the direct labour and depreciation costs provided by UPM in its appendix G4 for the month of December 2012. We were provided with confidential attachment COSTS 6 for the purposes of verifying these costs.

Using the production volume for December 2012 and the unit costs (per tonne of copy paper) of direct labour in the appendix G4, we calculated the total cost of direct labour for December 2012. We were provided with a summary page from the SAP system which reconciled with the total direct labour cost that we had calculated from the G4 data. We requested and were provided with the detailed report from the SAP system showing the line items that made up the total direct labour cost for December 2013. We noted that direct labour cost included elements for basic salary, overtime, pensions, social security, bonuses, accident insurance.

Using the production volume for December 2012 and the unit cost (per tonne of copy paper) of depreciation in the appendix G4, we calculated the total cost of depreciation for December 2012. We were provided with a summary page from the SAP system which reconciled with the total cost of depreciation that we had calculated from the appendix G4 data. We requested and were provided with the detailed report from the SAP system showing the line items that made up the total cost of depreciation for December 2012.

We analysed the production volume and depreciation figures for cut size, folios and reels produced on the PM1 (from December 2012 year to date management accounts). We compared the allocation of depreciation to each product as a percentage of total depreciation for PM1 and the production volumes for each product as a percentage of PM1 total production volume. The calculations provided us with confidence in the allocation of depreciation amongst the product split.

We requested and were provided with the depreciation asset register for PM1 for 2012 (**confidential attachment COSTS 20)** and the mill asset list (**confidential attachment COSTS 21**).

5.4 Selling, administration and financial expenses

5.4.1 Introduction

UPM's appendix G4 contained selling, administration, financial and delivery expenses. We selected the month of December 2012 and asked UPM to show us how they calculated these figures and how they related back to the audited financial statements for 2012.

5.4.2 Verification of selling and delivery expenses

UPM advised that the selling expenses in appendix G4 were derived from the selling expenses in the financial accounts, minus delivery costs (as selling expenses in the financial and management accounts include delivery costs). The selling expenses were then allocated by sales volume.

We were provided with confidential attachment COSTS 9 for the purposes of the SGA reconciliation. In the 'S&A cost' tab, we could see that UPM had taken the December 2012 sales quantity of cut size paper and the December 2012 total sales quantity for the Changshu mill. We were able to reconcile the December 2012 sales volume for cut size paper to the figure in appendix G4 and the December 2012 total sales volume for the mill to the management accounts.

We were provided with the 2012 year-to-date November trial balance and the 2012 year-to-date December trial balance (tabs in confidential attachment COSTS 9). To calculate the total selling cost for the mill for December 2012 UPM deducted the November 2012 year-to-date trial balance figure from the December 2012 year-to-date trial balance figure.

UPM multiplied the unit cost of delivery (for cut size only) in appendix G4 by the sales quantity of cut size for December 2012. This figure was deducted from the total mill selling expense for December 2012 and then divided by the total mill sales volume to arrive at a unit selling expense for all products made at the mill. We were able to reconcile this figure to the selling expense for cut size in appendix G4.

We sought to verify the unit cost of delivery and were provided with a SAP report showing the monthly average[6] delivery costs (per tonne) for cut size paper. We were able to reconcile the figure in the SAP report to the figure in appendix G4. We queried whether delivery expenses for folios and reels also needed to be deducted from the selling costs. UPM confirmed that delivery for all products did need to be removed and provided us with an updated selling expense figure for appendix G4 and supporting documentation (refer **confidential attachment COSTS 22**).

We could see that the new selling expense figure in appendix G4 was lower than the previous version. We were able to reconcile that the figure was derived from the sum of:

1. Selling and delivery expenses for the investigation period, minus total delivery costs for all products, minus marketing costs for all products. This figure was allocated by total domestic sales volume to arrive at a unit selling expense (excluding delivery and marketing);

2. Marketing costs for copy paper for the investigation period.

We were able to reconcile the total selling and delivery expenses for the IP to the financial year (FY) 2013 trial balance and reconcile the total delivery (carriage) costs for the investigation period to SAP reports showing the monthly carriage costs for the 18months January 2012 – June 2013. We were able to reconcile the monthly marketing costs for the investigation period to SAP reports showing the monthly costs for the investigation period.

The marketing and delivery costs were deducted from the total selling expense to arrive at a figure for selling expenses exclusive of marketing and delivery. Expenses for the regional sales offices that sell copy paper, folios and reels on the domestic market are included in this expense. This selling expense (exclusive of marketing and delivery) was allocated to the total domestic turnover volume of all products using monthly sales

[6] UPM use the term 'standard' to describe what is an average of the actual costs.

figures. The monthly sales figures were itemised by product category (copy paper, folios and reels) and were able to be reconciled to the detailed domestic copy paper sales listing and total domestic turnover figures provided in the REQ and verified at the visit.

UPM then provided a SAP report of marketing expenses for copy paper for the investigation period, showing the detailed breakdown of line items, values and posting dates. We could see that the line items included sales promotions for various copy paper brands sold on the domestic market.

The marketing expenses for copy paper were divided by the total domestic sales of copy paper during the investigation to calculate a cost per tonne.

The unit marketing expense for copy paper was added to the unit selling expense (exclusive of marketing and delivery) to calculate a domestic selling expense for copy paper. This figure covered the domestic marketing costs for UPM branded copy paper and the expenses for the regional sales offices. This figure was used to perform an adjustment to the normal value (refer section 8 of report).

Confidential attachment COSTS 22 contains the above detailed calculations.

5.4.3 Verification of administration expenses

UPM explained that the administration expenses in appendix G4 were derived from the financial accounts and allocated by sales volume.

We were provided with the 2012 year-to-date November trial balance and the 2012 year-to-date December trial balance (tabs in confidential attachment COSTS 9). To calculate the total administration costs for the mill for December 2012 UPM deducted the November 2012 year-to-date trial balance figure from the December 2012 year-to-date trial balance figure. This administration cost figure for December 2012 was divided by the total mill sales quantity for December 2012 to arrive at a unit figure for administration costs for cut size paper for December 2012.

5.4.4 Verification of finance expenses

UPM explained that the finance expenses in appendix G4 were derived from the financial accounts and allocated by sales volume. We utilised the 2012 year-to-date November trial balance and the 2012 year-to-date December trial balance (tabs in confidential attachment COSTS 9) to conduct the reconciliation.

To calculate the financial costs for the month of December 2013, UPM calculated the financial income and expense from the December 2012 year-to-date trial balance and deducted the interest income and expense values for the same period. The financial income and expense minus interest income and expense items ([redacted]) from the November 2012 year-to-date trial balance were then deducted to calculate the total financial expense for the month of December 2012. This figure was then divided by the total mill sales volume for December 2012 to calculate a unit expense for cut size. [*Financial item details*]

5.4.5 Selling, administration and finance expenses summary

We were able to reconcile the December 2012 selling, administration and finance expenses in appendix G4 to the December 2012 year-to-date trial balance. UPM provided a reconciliation of the December 2012 year-to-date trial balance to the audited financial statements. We were able to reconcile the selling, administration and finance expenses in the trial balance to the audited financial statements taking into account adjustments for finance expenses and general and administration expenses.

5.5 Costs to make and sell - conclusion

We consider that UPM's costs to make and sell data is a reasonably complete, relevant and accurate reflection of the actual costs to make and sell copy paper during the investigation period.

We consider sufficient cost to make and sell information was obtained and verified to determine a constructed normal value under section 269TAC(2)(c) of the Act and assess ordinary course of trade under section 269TAAD of the Act.

The costs to make and sell are at **Confidential Appendix 2.**

6 DOMESTIC SALES

6.1 General

As discussed in section 4.4, the visit team is considering UPM and UPM AP as a single entity for the purposes of a dumping margin calculation. Verification of UPM's domestic sales of copy paper is discussed below.

UPM explained that it sells copy paper on the domestic market to a range of customers that can be described as original equipment manufacturers (OEMs), distributors/merchants, retailers, and printing equipment suppliers. It described the Chinese market for copy paper as a highly competitive one.

We noted from the domestic sales data provided by UPM in its REQ, that its top 10 customers [redacted] for copy paper accounted for [redacted]% of its sales volume in the investigation period.

UPM explained that approximately [redacted]% of its domestic sales are made to order, while approximately [redacted]% can be supplied directly from stock on hand.

UPM advised that around [redacted]% of its domestic sales comprise certified (FSC or PEFC) paper, whereas its sales to Australia are [redacted] certified paper. UPM provided a summary report from its supply chain system to support this claim, which is at **confidential attachment DOM 2**.

UPM sell [redacted] different product codes of copy paper on the domestic market. [*Number of product codes]*

6.2 Domestic sales process

UPM explained that the following sales process is typical of its domestic sales arrangements:

- sales visits by regional sales representatives are made to customers;
- orders are passed to customer service specialists, where the orders are input to the system and scheduled for production if not in stock;
- order confirmation is issued;
- delivery is arranged;
- invoice is issued at around the same time the delivery is estimated to arrive at the customer ([redacted] days after dispatch).

6.3 Price negotiation (including discounts and rebates)

UPM explained that around the middle of every month it issues a price list for merchants. It provided copies of the price lists for the investigation period, which are at **confidential attachment DOM 3**. UPM explained that prices are negotiated with [redacted]. UPM described the price negotiation as a process that reflects changes in the market conditions. It explained that the price list is indicative and actual prices may be lower than the price list. It also explained that any discounts are negotiated prior to sales, and all discounts are reported on the invoice. [*Price negotiation details*]

UPM provided a copy of its 'pricing position' for copy paper for 2013. This document showed a benchmark price for [redacted], and the relative pricing points of all the other products. For example the highest premium was attached to UPM [redacted]. Lower pricing points were attached to [redacted], and lower again were the prices to [redacted]. A copy of the cutsize pricing positions schedule is at **confidential attachment DOM 4**. [*Pricing details*]

In terms of rebates, UPM explained that it has a well-established system of rebates linked mainly to volume targets. We selected one of the top 10 customers by volume and asked for a copy of the sales agreement that sets out the rebates. UPM provided a copy of the sales agreement with [redacted]. UPM explained the schedule of conditional rebates, which in the case of this customer were, for 2012, as follows:

[redacted]. [*Customer name and rebate details*]

A copy of the sales agreement for the selected customer is at **confidential attachment DOM 5**.

6.4 Determinants of domestic price

We asked UPM what product attributes and other factors affect the price of copy paper per tonne in China. UPM claimed that the following matters were of greatest importance in determining domestic prices:

- whiteness – high whiteness is the most expensive, followed by medium whiteness and then standard whiteness;
- certification – paper certified to Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC) standards;
- volumes – although it was noted that some of the price effect here is accounted for by way of rebates;
- brand differentiation – UPM claimed it has been successful in recent years in establishing some value around the UPM label [redacted]. [*Marketing details*]

The following chart shows that whiteness (represented by model) and certification clearly affected the price per tonne.

[Graph redacted]

The graph shows that [redacted] a higher net price was achieved for certified paper as opposed to non-certified. [*Number of models*]

In relation to volumes, UPM acknowledged that any price variations according to volume were largely accounted for in terms of the volume based rebates. Accordingly we consider the net prices (after discounts and rebates) are not affected significantly by the relative customer volumes.

In terms of brand differentiation, we noted the domestic pricing position document at confidential attachment DOM 4 indicates that [redacted]. [*Pricing differentials*]

UPM explained that these lower prices were due not to any level of trade difference but instead to the fact that [redacted] in the domestic market in China. [*Price details*]

We consider that the certification and whiteness are attributes of the goods and like goods that need to be considered when model matching for the purposes of calculating dumping margins. However we do not consider the brand differentiation is a product attribute that must be observed for such purposes. We consider that where an identical or closely comparable product can achieve a price premium in the domestic market, or indeed the export market, arising only because of brand differentiation, is not a factor that ought to be removed or negated when making a dumping assessment.

6.4.1 Delivery and payment terms

UPM explained that all domestic sales in the investigation period were on delivered terms. We noted the spreadsheet included terms of [redacted]. By far the most common delivery terms applied was [redacted]; which accounted for around [redacted] of domestic sales. [*Delivery terms*]

UPM informed us that a variety of payment terms existed for domestic sales during the investigation period. We noted in the domestic sales spreadsheet the payment terms ranged from [redacted]. We noted that the following two payment terms were the most common in the investigation period:

[redacted] *[Payment terms]*

6.4.2 Expenses relating to domestic sales

In its domestic sales spreadsheet submitted with its REQ, UPM included expenses for the following items, incurred in relation to domestic sales:

- inland transport;
- transport insurance;
- warehousing;
- commissions; and
- customs (import) duty on raw materials.

Amounts in relation to inland transport, transport insurance, warehousing and commissions are discussed in the section of this report called verification of domestic sales to sources documents.

The amounts in relation to customs duty are discussed in the adjustments section of this report.

6.5 Domestic sales data submitted by UPM

In its response to the REQ, UPM provided a domestic sales spreadsheet listing each domestic sale of copy paper made during the investigation period.

The spreadsheet included line-by-line information relating to:

- customer name;
- product code (model);
- invoice number and date;
- order number;
- delivery terms;
- payment terms;
- sales quantity (tonnes);
- gross invoice value;
- discounts;
- rebates;
- net invoice value;
- packing;

- inland transport;
- transport insurance;
- customs duty;
- commissions; and
- warehousing.

We sought to verify the domestic sales data contained within the domestic sales spreadsheet. Firstly we sought to test for completeness and relevance by tracing the data through management reports to audited financial statements. Secondly we sought to test the accuracy by tracing the data to source documents. These verification exercises are discussed in the following two sections of this report.

6.6 Verification of sales to audited financial statements

Our verification of the completeness and relevance of domestic sales was undertaken in conjunction with the same test for export sales. This verification is discussed at section 4.2 above.

6.7 Verification of sales to source documents

Prior to the visit we selected six domestic sales transactions for detailed verification. The transactions were selected from the detailed domestic sales spreadsheet that UPM submitted as part of its REQ. We asked UPM to prepare evidence to support the spreadsheet data for the selected domestic transactions. At the visit, UPM supplied six packages of documents, each containing the following:

- sales contract;
- purchase order;
- order confirmation;
- commercial invoice;
- tax invoice;
- packing list;
- evidence of payment; and
- evidence of inland transport charges.

The domestic sales documents are at **confidential attachment DOM 6**.

6.7.1 Key invoice details including sales volume and value

We were able to match the sales value on commercial invoices (and corresponding tax invoices) to the details shown in the domestic sales spreadsheet for each of the selected transactions. However, in doing so we noted the spreadsheet contained, in some cases, the incorrect gross invoice values. This is because the gross invoice value in the spreadsheet was not accounting for the value of freight surcharges that we identified on the source documents.

We asked for evidence of all freight surcharges applying to domestic sales of like goods over the investigation period. UPM provided an Excel workbook called "*updated domestic sales with surcharge.xls*", which is at **confidential attachment DOM 7**. Based on this data, we made amendments to the gross invoice value to ensure the surcharges were included. This alteration affected approximately [redacted]% of domestic sales by volume and resulted in an increase of [redacted]% to the value of those sales. In terms of overall uplift to the gross value of domestic sales, the increase was around [redacted]%.

As a further check of the freight surcharges we asked for and were provided two additional invoices that incurred freight charges. We noted the new spreadsheet contained the correct details. Copies of the additional invoices containing amounts for freight surcharges are at **confidential attachment DOM 8**.

In terms of the sales volume, we noted that the spreadsheet contained volume amounts that agreed to the invoices, packing lists and other relevant sources documents.

Other key information on the source documents also matched the details provided in the domestic sales spreadsheet. In particular we checked the product description; invoice number and date; customer name; delivery terms; and payment terms.

6.7.2 Discounts

As discussed above, UPM explained that all discounts to gross price are recorded on the invoices. We noted that only one of the selected transactions contained discounts, and in this case a comparison of the source documents and the detailed spreadsheet revealed a minor discrepancy. Although the discrepancy was immaterial, we selected another three domestic transactions that incurred discounts and we sought additional source documents. UPM provided copies of order confirmations and commercial invoices, which are contained at **confidential attachment DOM 9**. We noted all the gross invoice values and the discount amounts reconciled exactly with the detailed domestic sales data.

6.7.3 Rebates

We asked UPM for evidence of the rebates associated with each of the selected transactions. UPM provided detailed listings of rebate accruals for the relevant customers, which are at **confidential attachment DOM 10**. The rebate accrual reports included rebate data on a transactional basis (each invoice), for each customer, including unit price, rebate rate, quantity, total rebate and invoice number and date. The total rebate relevant to each invoice matched the amounts contained in the domestic sales spreadsheet.

UPM explained that the rebates for each customer, for each calendar year are calculated finally in January of the following year, and they are paid in March. Therefore, in relation to the investigation period, the rebates had been paid for 2012, but were accrued and not yet paid in relation to the first six months of 2013.

We sought evidence of the payment of rebates for copy paper [redacted] the second half of 2012, and a comparison of the rebates paid in that period to the rebates accrued in the next six months.

UPM provided a download from its financial system that showed an amount of rebates accrued for cut size products in the second half of 2012. It also provided data showing the actual rebates paid for 2012 for cut size, and then an allocation, based on volume, of this figure back to the second half of 2012. The accrued rebates and the actual rebates paid for the second half of 2012 were very similar figures.

UPM also provided data on the amount of rebates accrued for copy paper for the first half of 2013. We noted that the amount, when expressed per tonne had increased from 2012, which UPM explained was due to the more aggressive competition in an increasingly competitive market.

The evidence provided in support of the total rebates paid in 2012, and those accrued in the first half of 2013 is at **confidential attachment DOM 11**.

As an additional check of the rebates, we also sought and were provided evidence of the actual rebates paid in relation to two selected customers for 2012. UPM provided evidence of one customers' rebate being given effect through a deduction on an invoice in March 2013. It provided evidence of the second customers' rebate being given effect by adjustment to the accounts receivable. UPM explained that these are the two methods by which rebates are given effect. The evidence for payment of rebates in relation to two selected customers is at **confidential attachment DOM 12**.

We measured the amounts of rebate paid to the two selected customers as a percentage of the gross sales revenue for the year 2012. We compared this to a similar measure for the investigation period and noted the results to be very similar. This indicated to us that the accrued rates of rebates for the first half of 2013 had not differed significantly from the rebates paid for 2012 for these customers.

The operation of reimbursements, such as rebates, is a relevant consideration when assessing whether transactions are arms length. This assessment is discussed later in this section of the report.

6.7.4 Payment terms

We examined the evidence of payment documents provided by UPM for the selected domestic transactions, and noted that payment was made in close parallel to the agreed terms. The credit terms ranged from [redacted]. Copies of the documents that represent evidence of payment are included at confidential attachment DOM 6. [*Payment terms*]

6.7.5 Inland transport

All of the selected transactions were for goods sold with delivery terms of 'delivered at place' (DAP). UPM provided a logistics cost diagram, which showed approximate freight costs for delivery to several destinations across mainland China. The diagram is at **confidential attachment DOM 13**.

In the packages provided for each selected domestic transaction, UPM provided copies of commercial invoices and tax invoices for inland transport charges particular to that transaction. We noted that the amounts differed to those shown in the domestic sales spreadsheet for the corresponding transaction. UPM explained that the figures differ slightly because the spreadsheet figures come from a database that relies upon a weighted average of actual freight costs, by region, for the preceding six months, which will not reconcile precisely with the actual costs for a selected transaction.

However, contrary to this explanation, we noted the freight costs in the spreadsheet were always higher than the actual freight costs evident from the source documents. We found that the main reason for this was that the spreadsheet figure included [redacted]% VAT applicable to road and sea transport. Another reason became evident in our later examination of information provided for warehousing expenses. That is, it became apparent, and UPM confirmed, that its system-generated domestic inland transport costs included warehouse charges and transport insurance. These are both discussed in further detail below.

We amended the freight costs such that the value of VAT was removed from only the transport component of the inland transport charges. We regard the amended figure to be a reasonable calculation, in aggregate, of domestic inland freight, domestic warehousing charges, and domestic transport insurance.

Copies of the documents supporting the domestic inland freight charges are included within the packs at confidential attachment DOM 6.

6.7.6 Commissions

In its domestic sales spreadsheet, UPM completed a column called 'Commissions'. We noted that the amounts in this column were calculated on the basis of [redacted]Tonne. In its REQ, UPM stated:

> *No commissions are actually paid. The commissions referred to in spreadsheet D-4 is actually a selling cost attributable to the activities of the regional offices and are included in the domestic CTMS spreadsheet.*

We spent a considerable period of time discussing the issue, and as verification of other issues had not been completed, we asked UPM to consider making a submission on the matter of selling expenses, should it wish to pursue some adjustment in the normal value calculations. We indicated that if submitted in the near future it would be possible to have regard to the submission before completing the exporter visit report and preliminary dumping margin calculations.

On the 13 January 2014 we met with UPM representatives in Australia to discuss the issue of an adjustment for domestic selling expenses. Prior to the meeting UPM provided us with further supporting evidence of the adjustment, which is discussed at section 5.4.2 of this report.

6.7.7 Transport insurance

In its domestic sales spreadsheet, UPM completed a column called 'Transport insurance'. We noted that the amounts in this column, which were applicable to all domestic transactions, were [redacted]% of the net invoice amounts, i.e. after discounts and rebates. However, as discussed in the inland transport section above, it became apparent that the UPM calculation of inland transport included transport insurance (and warehousing charges). This is explained in the section below.

6.7.8 Warehousing

In its domestic sales spreadsheet, UPM included amounts against some domestic transactions, in a column called 'Other costs (warehousing)'. We noted that the amounts in this column were recorded in relation to [redacted]% (by volume) of the cut size domestic sales in the investigation period. Where the amounts were shown, we noted the warehousing costs ranged from [redacted]% [redacted]% of the net invoice amounts, i.e. after discounts and rebates.

However, as discussed in the inland transport section above, it became apparent that the UPM calculation of inland transport included warehousing charges (and transport insurance). This was evident in the package of documents provided by UPM to support its warehousing costs, which is at **confidential attachment DOM 14**. Contained in this document is a schedule of costs that includes:

- inland transport (mill to warehouse);
- cartage (warehouse to customer);
- transport insurance [redacted]%)
- storage at warehouse

UPM explained the latter is what it has described as 'other costs - warehousing charges' in the REQ. It is evident from the source documents that all these four charges are summed to arrive at an amount called total transport and delivery costs. UPM confirmed that this total is what forms the basis of the inland transport charges it downloaded for the domestic sales spreadsheet. Hence it had inadvertently double counted warehousing charges and transport insurance in these spreadsheets.

6.7.9 Domestic sales - conclusion

We have examined the documentation provided by UPM to support the data contained in the domestic sales spreadsheet.

On the basis of our downwards verification to source documents we are satisfied that the data in the domestic sales spreadsheet is accurate.

With regards to our upwards verification to the management reports and the audited financial statements, discussed earlier in this report, we are also confident about the completeness and relevance of the data in the domestic sales listing.

6.8 Arms length

In respect of domestic sales during the investigation period, we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or

- 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.

However, we noted that in many instances the buyer will be reimbursed for part of the price through a system of rebates, which is given effect after the end of each calendar year. Having regard to the discussion of domestic rebates above, and to the sales agreement discussed earlier in the domestic sales section, we are satisfied that the UPM rebates:

- are based on clear agreements and well-established trading practices;
- reflect agreements and practices that have been in force for several years; and
- are established such that the amounts of the potential rebates are quantifiable at the time of the sales.

Therefore, pursuant to section 269TAA of the Act, we consider that in spite of the payment of the rebates, the domestic sales can be treated as arms length transactions.

6.9 Ordinary course of trade and sufficiency of volume tests

We compared UPM's unit net domestic selling price (i.e. after discounts and rebates) for each transaction to the corresponding fully absorbed unit CTMS for the quarter of the sale. We found domestic sales at a loss represented [redacted]% of the total domestic sales of like goods in the investigation period. Similar proportions were evident for each of [redacted] models that were most comparable to the models exported. Therefore, the sales at a loss were not in substantial quantities (i.e. not greater than 20% of domestic sales volume of like goods) for any models of the like goods. Accordingly, we regard all domestic sales of like goods to be in the ordinary course of trade. Calculations of the volumes of domestic sales sold at a loss are at **confidential appendix 3**.

We also tested, in relation to the domestic sales of models directly comparable to the models exported to Australia, whether the sales in the ordinary course of trade were in sufficient volume (i.e. 5% or greater than the corresponding export volume, measured separately for each model). We found that the volume of domestic sales for each model was well in excess of 5% of export volume. The results of the sufficient test are contained in the table below:

[Table redacted]

The calculations for the sufficiency of volumes are at **confidential appendix 4**.

6.10 Profit on sales made in the ordinary course of trade

We calculated profit rates applicable to domestic sales of like goods that were made in the ordinary course of trade in the investigation period. The overall profit rate for domestic sales of like goods that were made in the ordinary course of trade in the investigation period was [redacted]%, measured as a mark-up on CTMS.

The calculations of profits achieved on domestic sales of like goods made in the ordinary course of trade are at **confidential appendix 5**.

7 THIRD COUNTRY SALES

In its REQ, UPM provided a summary of its sales of copy paper to third countries.

During the visit, we discussed UPM's third country sales and were informed that the goods sold to third countries are like goods. We compared the volume of sales to each third country and found that sales to no one country were of comparable volumes to the volume of copy paper exported to Australia.

As we considered that we were in possession of enough verified information from the submission and the verification visit to calculate normal values for copy paper using domestic sales or a construction method, we did not undertake detailed verification of third country sales data.

8 ADJUSTMENTS

To ensure proper comparison of normal values with export prices we considered the adjustments discussed in this section of the report.

It is important to note that the comparison of export price and normal value was done on the basis of cash, FOB terms. This approach was adopted because of the multiple credit and delivery terms that applied to both export and domestic sales.

8.1 Domestic and export credit terms

We verified the amounts paid for copy paper were in accordance with the invoice amounts and we also verified the actual credit terms observed with respect to the selected transactions, which is discussed above in the domestic sales and export sales sections of this report. We found that the actual credit terms observed by customers when making payment reasonably reflected the credit terms quoted on the invoices, which aligned with those recorded in the data supplied by UPM in respect of the domestic sales transactions and export sales transactions.

During the visit, we asked for evidence of the interest rate applicable to short term borrowings during the investigation period. UPM provided details of its average short-term borrowing/lending in the form of SAP reports for the investigation period. Using this data, UPM determined an average interest rate for the term of the investigation period, which was [redacted]%. We used this as a basis for calculating the opportunity cost of extending credit terms.

Copies of the documents supporting the calculation of an average interest rate are at **confidential attachment COSTS 23**.

In order to ensure normal values are comparable with export prices expressed at cash terms, we consider it is appropriate to make a downward adjustment to domestic selling prices for domestic credit terms.

8.2 Domestic and export inland freight

UPM included within is domestic sales data and its exports sales data, amounts for inland transport charges incurred in relation to each invoice. The verification of these amounts is discussed above in the domestic sales section and export sales section, of this report. We concluded that the amounts recorded in respect of the domestic sales transactions and exports sales transactions were relevant and reliable.

In order to ensure normal values are comparable with export prices expressed at FOB, we consider that a downward adjustment to domestic selling prices is required for domestic inland freight (amounts as amended during verification), and an upward adjustment is required for export inland freight to the point of FOB.

8.3 Export selling expenses (including commissions)

As discussed above in the domestic sales section of this report, UPM confirmed that commissions were not actually paid in relation to domestic sales.

However, in relation to the export sales, UPM AP retained [redacted] during the investigation period for its role in the export sales process. This amount covered UPM AP's distribution and marketing, administrative and finance expenses incurred for sales of copy paper to Australia, including the commission it paid to UPM Australia. Further discussion on UPM AP's expenses is contained in the export sales section of this report.

In order to ensure normal values are comparable with export prices that take into account the revenue paid to UPM AP for its role in the export process, we consider that an upward adjustment [redacted] is required in the normal value calculations. [*Commission rates*]

8.4 Domestic selling expenses

As discussed in sections 5.4.2 and 6.2, of this report, UPM has regional sales offices in China through which all domestic sales are made. As UPM does not conduct any activities for selling of export sales, we consider that a downwards adjustment is required to the normal value calculations. The allocation of domestic selling expenses is discussed at section 5.4.2 of this report and the deduction has been made using the verified monthly unit selling expenses.

In addition, as discussed at section 6.4 UPM sells UPM branded copy paper on the domestic market, with export sales being almost all customer brand copy paper. UPM incurs expenses for the marketing of UPM branded copy paper on the domestic market, which are not incurred for export sales. As such we consider that a downwards adjustment is required to the normal value calculations. The deduction has been made using the verified monthly domestic marketing expenses for copy paper. Verification of these expenses is discussed at section 5.4.2 of this report.

8.5 Customs duty on raw materials for goods sold domestically

UPM explained that it incurs customs duty charges in relation to certain raw materials, but only in respect of the those raw materials that are consumed in the production of goods sold domestically. UPM explained that [redacted] it does not incur such charges in relation to raw materials consumed in the production of goods exported. UPM asserted that this difference in expenses is reflected in a difference in prices because the domestic selling price would be set in a manner so as to recover such costs.

To support its calculation of [redacted] for customs duty on raw materials applicable only to domestic sales, UPM provided copies of its applications and approval forms for the Customs Department for December 2012 (**confidential attachment DOM 15)**. We noted the unit value of the import duty payment for December 2012 ([redacted]) was similar to the yearly average of [redacted]. [*Customs Duty details]*

We noted that UPM had not [redacted]. This indicates that UPM did not routinely account for such differences in customs duty on raw materials [redacted]. We also noted that the amount of the expense, measured as a percentage of the net domestic selling price, was [redacted]%. For these reasons we consider that it is highly unlikely that this difference in production costs incurred for domestic and export sales because of customs duty charges on raw materials had translated to any difference in price between domestic and export sales during the investigation period. [*Customs Duty Details*]

Accordingly, we consider that an adjustment to domestic selling prices in relation to customs duty on raw materials consumed in the production of goods sold domestically is not warranted.

8.6 Non-deductible VAT on exported goods

In the export sales section above, we verified a percentage rate [redacted]% as the amount of non-deductible VAT incurred for export sales of copy paper in the investigation period. This represents a material expense that is incurred in relation to goods exported but not goods sold domestically.

In order to ensure normal values are comparable with export prices that are considered to be taking into account the non-deductible VAT, we consider that an upward adjustment of [redacted]% is required in the normal value calculations.

8.7 Packaging

UPM claimed that the packaging expenses incurred in relation to domestic and export sales are very similar, are not accounted for separately, and therefore are not a driver for any price differences.

During our plant inspection, we took particular notice of the packaging used for goods stored in the warehouse – for goods destined for domestic customers, Australian customs and third country customers – and it appeared that the packaging was very similar. We accepted the UPM contention that normal values do not require any adjustment for packaging to ensure proper comparison to export prices.

8.8 Domestic transport insurance and warehousing

As discussed in the domestic sales section above, it was apparent that the UPM calculation of inland transport included transport insurance and warehousing charges. A downward adjustment to domestic selling prices has already been recommended in respect of domestic inland freight, and we consider that any further adjustment for transport insurance and warehousing would be double counting, and therefore inappropriate.

UPM provided some evidence of its domestic transport insurance and warehousing charges, which is at **confidential attachment ADJ 1**. Like the evidence at confidential attachment DOM 14, this shows that all such charges were a subset of the amounts for inland transport.

8.9 Credit Insurance

We asked UPM whether it has a credit insurance policy and associated charges, and whether such charges were different for domestic and export sales.

UPM confirmed that it maintained such insurance, but that the global policy covering global trade credit provided no differentiation for extending credit to domestic or export customers. UPM provided a copy of a signed letter from its insurance underwriter [redacted] that confirmed the existence of the global trade credit policy in place for the UPM-Kymmene Corporation, presently in force to 31 December 2014, which is at **confidential attachment ADJ 2**. [*Underwriter identity]*

Accordingly, UPM contended and we accepted that credit insurance charges would not generate any difference between export and domestic prices.

9 NORMAL VALUE

9.1 Normal value assessments

As discussed in the domestic sales section of this report, UPM sold copy paper models on the domestic market that were directly comparable to the models exported to Australia. The sales were in the ordinary course of trade and were in sufficient volumes.

We therefore used the domestic selling prices of the most comparable models as the basis of normal value in terms of section 269TAC(1) of the Act. We adjusted those domestic selling prices to ensure the normal values were properly comparable with export prices, which were expressed as cash, FOB (at mill jetty). The adjustments, which were made in terms of section 269TAC(8) of the Act, were in relation to:

- credit terms (negative adjustment for domestic credit);
- inland freight (negative adjustment for domestic charges and positive adjustment for export charges);
- selling expenses (negative adjustment for domestic expenses and positive adjustment for export expenses which included export commissions).
- non-deductible VAT on exported goods (positive adjustment).

Normal value calculations based on domestic sales are at **confidential appendix 6**.

10 DUMPING MARGIN

We compared the weighted average of export prices over the whole of the investigation period with the weighted average of corresponding normal values over the whole of that period and found that the goods exported to Australia were dumped at a margin of -0.95%

The dumping margin calculations are at **confidential appendix 1**.

11 APPENDICES AND ATTACHMENTS

Confidential attachment EXP 1	Selected export sales documents
Confidential attachment EXP 2	Residual VAT documents
Confidential attachment EXP 3	Email showing carrier terminal handling charge at Port of Shanghai
Confidential attachment EXP 4	UPM logistics costs for export markets
Confidential attachment EXP 5	Sea freight charges
Confidential attachment EXP 6	Freight carriage and handling costs by port
Confidential attachment EXP 7	System print out of port charges
Confidential attachment EXP 8	Options for ocean freight to Australia
Confidential attachment EXP 9	Shipping service contract UPM and [redacted]
Confidential attachment EXP 10	Ocean freight spreadsheet
Confidential attachment EXP 11	Invoices for AUS customs duty
Confidential attachment EXP 12	[redacted] rebate documentation
Confidential attachment EXP 13	UPM AP organisational chart
Confidential attachment COSTS 1	UPM AP financial statements report to Jun 2013
Confidential attachment COSTS 2	UPM P&L for Jul 2012 – Jun 2013
Confidential attachment COSTS 3	Sales revenue upwards verification package
Confidential attachment COSTS 4	Changshu mill variable cost analysis
Confidential attachment COSTS 5	PM1 production summary report for March 2013
Confidential attachment COSTS 6	Verification spreadsheets for G4 (costs)
Confidential attachment COSTS 7	Detailed G4 cost spreadsheet
Confidential attachment COSTS 8	Cut size management accounts
Confidential attachment COSTS 9	Spreadsheets for upwards cost verification including management accounts to financial accounts reconciliation

Confidential attachment COSTS 10	Spreadsheet for downwards cost verification
Confidential attachment COSTS 11	Documentation for selected pulp purchases by UPM
Confidential attachment COSTS 12	List of UPM pulp purchases for IP
Confidential attachment COSTS 13	PM1 stock recipe
Confidential attachment COSTS 14	Pulp planned orders, list and net prices and market prices
Confidential attachment COSTS 15	Documentation for selected purchases of filler by UPM
Confidential attachment COSTS 16	Chart of UPM coal purchase prices for IP
Confidential attachment COSTS 17	Energy cost supporting documentation
Confidential attachment COSTS 18	Documentation for selected purchases of coal by UPM
Confidential attachment COSTS 19	Documentation for selected purchases of starch by UPM
Confidential attachment COSTS 20	SAP download of PM1 depreciation asset register
Confidential attachment COSTS 21	Changshu mill asset list
Confidential attachment COSTS 22	G4 updated selling expense and selling expense verification package
Confidential attachment COSTS 23	Evidence of short term interest rate
Confidential attachment COSTS 24	UPM China SGA reconciliation
Confidential attachment COSTS 25	Chart of current IT environment in UPM Finance
Confidential attachment COSTS 26	Reconciliation between UPM 2012 group and statutory reports
Confidential attachment COSTS 27	UPM China and UPM AP FA/MA reconciliation
Confidential attachment COSTS 28	Hard copy of downwards verification of CTM to raw materials
Confidential attachment COSTS 29	Mill adjustment processing fee spreadsheet
Confidential attachment COSTS 30	Note on UPM source of filler and starch
Confidential attachment COSTS 31	PM1 Cost Allocation according to recipe

	spreadsheets
Confidential attachment COSTS 32	Supply Chain Concept – IT overview and information flow
Confidential attachment COSTS 33	Report of Changshu Mill Profit centres
Confidential attachment COSTS 34	Mill Adjustment PDF report Jan-Jun 2013
Confidential attachment DOM 1	Spreadsheet showing impact of [redacted]
Confidential attachment DOM 2	Report on sales of FSC/PEFC paper
Confidential attachment DOM 3	Domestic price lists
Confidential attachment DOM 4	Cut size pricing positions
Confidential attachment DOM 5	[redacted] sales agreement
Confidential attachment DOM 6	Selected domestic sales documents
Confidential attachment DOM 7	Domestic freight surcharge spreadsheet
Confidential attachment DOM 8	Invoices showing freight surcharges
Confidential attachment DOM 9	Source documents showing discounts
Confidential attachment DOM 10	Detailed listings of rebate accruals
Confidential attachment DOM 11	Domestic sales rebates print out
Confidential attachment DOM 12	Source documents for domestic rebates
Confidential attachment DOM 13	Chart showing domestic logistics costs
Confidential attachment DOM 14	Supporting documentation for warehousing costs
Confidential attachment DOM 15	UPM applications and approval forms for Chinese Customs Department
Confidential attachment DOM 16	Domestic sales listing showing certification
Confidential attachment ADJ 1	Evidence of domestic transport insurance and warehousing charges
Confidential attachment ADJ 2	Letter from insurance underwriter
Confidential attachment GEN 1	Details of raw materials imported [redacted]
Confidential attachment GEN 2	UPM spend review slides

Confidential attachment GEN 3	Product code specifications
Confidential appendix 1	Export price and dumping margin calculations
Confidential appendix 2	Cost to make and sell data
Confidential appendix 3	Calculations of domestic sales at a loss
Confidential appendix 4	Sufficiency tests and normal value summary
Confidential appendix 5	Calculations of profit on domestic sales
Confidential appendix 6	Normal value calculations