



INVESTIGATION 242

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VISIT REPORT EXPORTER

UPM FRANCE S.A.S.

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THE FINAL POSITION OF ANTI-DUMPING COMMISSION

December 2014

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ABBREVIATIONS

AUD	Australian dollars
ACBPS	Australian Customs and Border Protection Service
ADN	Anti-Dumping Notice
Commission	Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
DIP1	De-inking plant 1
DIP2	De-inking plant 2
DIP3	De-inking plant 3
DSO	Days sale outstanding
EUR	Euros
Euribor	Euro Interbank Offered Rate
FOB	Free On Board
French GAAP	French Generally Accepted Accounting Principles
gsm	Grams per square meter
IFRS	International Financial Reporting Standards
Investigation period	1 April 2013 to 31 March 2014
NIP	Non-injurious Price
NSIA	Norske Skog Industries Australia Limited
PAD	Preliminary Affirmative Determination
PM3	Paper machine 3
PM6	Paper machine 6
RCP	Recovered (recycled) paper
SEF	Statement of Essential Facts
the Act	<i>Customs Act 1901</i>
The applicant	Norske Skog Industries Australia Limited (NSIA) (Australian manufacturer of like goods)
the goods	the goods the subject of the application
the Parliamentary Secretary	the Parliamentary Secretary to the Minister for Industry
UPM	UPM France S.A.S
UPM Australia	UPM-Kymmene Pty Ltd
UPM AP	UPM Asia Pacific Pte Ltd
UPM-Kymmene	UPM-Kymmene Corporation
USP	Unsuppressed Selling Price

1 BACKGROUND AND PURPOSE

On 24 March 2014, Norske Skog Industries Australia Limited (NSIA) lodged an application for the publication of a dumping duty notice in respect of certain newsprint exported to Australia from France and Korea. Newsprint is the type of paper used in the printing of newspapers and other publications such as advertising brochures and telephone directories. A detailed description of the newsprint subject to the investigation is at Section 3.

Following consideration of the application, the Commissioner decided not to reject the application and the Commission initiated an investigation on 22 April 2014. Public notification of initiation of the investigation (public notice) was made in *The Australian* newspaper on that day.

Anti-Dumping Notice (ADN) No. 2014/34 provides further details of the investigation and is available on the Commission's website at www.adcommission.gov.au.

In respect of the investigation:

- the investigation period for the purpose of assessing dumping is 1 April 2013 to 31 March 2014; and
- the injury analysis period for the purpose of determining whether material injury has been caused to the Australian industry is from 1 April 2010.

1.1 Background to meeting

Following initiation of the investigation, a search of the Australian Customs and Border Protection Service's (ACBPS) import database indicated that UPM France S.A.S. (UPM) exported newsprint from France to Australia in the period 1 April 2013 to 31 March 2014 (the investigation period).

The Commission notified UPM of the initiation of the investigation. The Commission sought UPM's cooperation with the investigation and provided an exporter questionnaire for the company to complete. UPM completed the exporter questionnaire and included data relevant to domestic and export sales obtained from other companies in the wider UPM Group (specifically UPM Sales OY and UPM-Kymmene Pty Ltd (UPM Australia)). Discussion of the relationships between each of these parties is contained in Chapter 2.

A non-confidential version of the response to the exporter questionnaire is available on the Public Record.

1.1 Purpose of visit

The purpose of the visit was to verify information contained in the response to the exporter questionnaire submitted by UPM (including data belonging to other relevant companies in the UPM Group).

UPM's response to the exporter questionnaire consisted of background information on its activities, export sales data to Australia and other countries, domestic sales data, and cost to make and sell data. The response to the exporter questionnaire was supported by various appendices and attachments.

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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.

1.2 Meeting details

Company	UPM France S.A.S. Etablissement Chapelle Darblay Grand-Couronne France
Dates of visit	10 12 and 15 September 2014

The following were present at the meetings:

UPM and other UPM Group Representatives

Mr Alain Comte	Manager PBG Manufacturing Business Control
Mr Fabien Benoist	Cost Controller PBG Manufacturing Business Control
Ms Raisa Juopperi	Manager, Sales Business Control Newspaper Publishing
Ms Kirinda Bakker	Customer Service Specialist Team Leader
Mr Sébastien Finel	Technical Director
Mr Jean-Pierre Deregnieaux	Director, Financial Services Western Europe
Ms Stephanie Freret	Senior Finance Specialist
Ms Isabelle Languillet	Technical Sales Assistant
Mr Heikki Wallenius	Business Controller for Paper ENA Sales and Supply Chain

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(by telephone)	Network
Mr Tomi Taskinen (by telephone)	Financial Controller for Financial Services
Ms Pia Porvari (by telephone)	Head of Credit, Group Credit Risk Management

Anti-Dumping Commission

Ms Andrea Stone	Assistant Director Operations 2
Mr Jukka Mäntynen	Assistant Director Operations 1

1.3 SEF and due dates

The public notice of the initiation advised that the SEF for the investigation would be placed on the public record by 11 August 2014. However, the Commissioner was satisfied that the prescribed 110 days to place the SEF on the public record for the investigation was insufficient and requested that the Parliamentary Secretary extend the publication timeframes.

On 8 August 2014 the Parliamentary Secretary granted an extension of 80 days to the date for the publication of the SEF. That extension required the SEF to be published by 29 October 2014, and the final report and recommendations to be provided to the Parliamentary Secretary by 13 December 2014.

On 22 October 2014, the Parliamentary Secretary approved the Commission's request to further extend the publication date of the SEF by 50 days. The SEF is now due on 18 December 2014.

The final report with the Commissioner's recommendations is now due to the Parliamentary Secretary on or before 1 February 2015.

1.4 Investigation process and timeframes

UPM was advised of the investigation process and timeframes as follows.

- The investigation period is 1 April 2013 to 31 March 2014.
- The injury analysis period for the purpose of determining whether material injury has been caused to the Australian industry is from 1 April 2010.

A Preliminary Affirmative Determination (PAD) may be made no earlier than day 60 of the investigation (21 June 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 SEF for the investigation is due to be placed on the public record by 18 December 2014, or such later date as the Parliamentary Secretary allows under section 269ZHI of the Act.

The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Parliamentary Secretary, 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 Parliamentary Secretary.

This final report is due no later than 1 February 2015, unless an extension to the SEF or that final report is approved by the Parliamentary Secretary.

1.5 Visit report

We informed UPM that a report of the visit (this report) would be prepared following the verification visit and that a draft of the report would be provided 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, a non-confidential version of the report would be placed on the investigation's Public Record.

1.6 Cooperation

UPM was well prepared and co-operative during the verification visit, and supplied documentation as requested.

2 COMPANY INFORMATION

2.1 Company background

UPM is related to various companies owned by UPM-Kymmene Corporation (for the purposes of this report, the companies ultimately owned by UPM-Kymmene Corporation and that entity itself are referred to collectively as the 'UPM Group').

Of these UPM Group companies, those discussed below have a role in the manufacture and sale (domestic, to Australia or both) of newsprint produced by UPM. Further details of each company's role are discussed throughout this report.

2.1.1 UPM (manufacturer of the goods)

UPM is a limited liability company incorporated in France, and is wholly owned by UPM-Kymmene Corporation (see below).

UPM's principal activities are the production of newsprint and other paper products, including fine paper, magazine paper and labels.

UPM manufactures various grades of newsprint solely at UPM's Chapelle Darblay mill. Details of UPM's production of newsprint are at Section 3.2.

In addition to paper products, UPM manufactures various wood products known as 'planning goods' (construction and interior goods) and external flooring and decking. A catalogue of these wood products forms **Attachment GEN 1**.

UPM also generates electricity as part of its paper manufacturing processes, which it sells directly to the electricity grid (purchasing back its electricity needs at a lower price and therefore generating revenue). This is further discussed in Section 5.6.2.

2.1.2 UPM-Kymmene Corporation

UPM-Kymmene Corporation (UPM-Kymmene) is a public limited liability company registered in Finland and is the sole owner of UPM. UPM-Kymmene has 20 paper mills in 14 countries.

UPM-Kymmene performs the corporate functions of the UPM Group.

The UPM Group maintains the following 'businesses', with oversight by UPM-Kymmene:

- Paper;
- Biofuels;
- Energy;
- Wood sourcing and forestry;
- Label materials;
- UPM biocomposties;
- Pulp;
- Timber; and
- Plywood.

In the paper business, UPM-Kymmene maintains a structure that includes two paper divisions:

- UPM Paper ENA (Europe and North America); and
- UPM Paper ASIA.

The paper-related activities of UPM are under the UPM Paper ENA division.

2.1.1 UPM Sales OY

UPM Sales OY (registered in Finland) is wholly owned by UPM-Kymmene.

UPM Sales OY is the UPM Group entity that conducts sales of all paper products manufactured in Europe by various UPM Group companies, including the entire production of the Chapelle Darblay mill (owned by UPM). UPM Sales OY sells these products directly to the UPM Group's French domestic customers, while for the Asia Pacific region, UPM Sales OY sells these products to UPM Asia Pacific Pte Ltd (UPM AP), for further sale to customers.

UPM Sales OY has agreements with various UPM Group manufacturing entities for the production of paper products. UPM Sales OY also maintains an agreement with UPM AP for sale of newsprint in the Asia-Pacific region. Details of these agreements, and the domestic and export sales processes, are discussed later in this report.

UPM Sales OY also trades in other products produced by UPM Group companies in Europe, including:

- Pulp;
- Biofuels; and
- Wood products.

A listing of products supplied by UPM Sales OY forms **Confidential Attachment GEN 2**.

2.1.1 UPM AP

UPM AP is wholly owned by UPM-Kymmene and is based in Singapore.

As discussed above, UPM AP sells paper products in the Asia-Pacific region sourced from various global UPM Group companies, including UPM (via UPM Sales OY). UPM AP sells these UPM Group paper products to the final customer (in some cases, with the assistance of agents see below).

UPM AP does not trade in other various products manufactured by the UPM Group.

2.1.1 UPM Australia

UPM Australia is based in Sydney and acts as a sales agent for UPM AP on a commission basis. UPM Australia is wholly owned by UPM-Kymmene.

UPM Australia sells (as an agent for UPM AP):

- Paper, including:

- Newsprint;
- LWC, WFC and WFU paper; and
- Copy paper
- Labels (via its sister company 'Raflatac').

2.2 Accounting structure and details of accounting systems

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

UPM maintains [REDACTED] profit centres, two of which relate to the Chapelle Darblay mill (one for each paper machine at the mill). The other profit centres are in respect of other UPM's paper machines, and various other businesses and operating functions throughout France.

UPM maintains actual manufacturing costs at the same level as its profit centres. Actual costs are maintained at an aggregate all product paper-machine level, and are not routinely calculated at model-level detail.

UPM maintains two sets of audited accounts. One set is prepared according to French Generally Accepted Accounting Principles (French GAAP). The other is prepared according to International Financial Reporting Standards (IFRS) and forms part of the consolidated accounts of the UPM Group.

Both sets of statutory accounts maintained by UPM, as well as those of all other companies in the UPM Group, are audited by PriceWaterhouseCoopers.

UPM management accounts are maintained according to the IFRS.

UPM indicated that it (and the entire UPM Group) uses a combination of accounting information systems from various software providers including [REDACTED] to operate and maintain records of its accounting, sales, production and logistics functions. These systems include:

- [REDACTED] - a sales management tool that is a [REDACTED] used for ordering, confirmations and invoicing;
 - [REDACTED] - a production management tool that is supplied by [REDACTED] that directs mill production. An additional tool, the 'Product Control Management' or 'PCM' is linked to this system. PCM is a tool for recording and reviewing the cost details of the products (including chemicals and recycled paper details and costs) used in production the PCM contains standard costs of manufacture by models (discussed in more detail in Chapter 5);
 - [REDACTED] - an [REDACTED] transport management tool used for logistics planning and invoicing as well as movement records;
 - [REDACTED] - a [REDACTED] system that records accounts payable and receivable.
- [Accounting System details]

UPM advised that the UPM Group companies use [REDACTED] as its financial reporting tool to extract data from [REDACTED], while [REDACTED] is used as a management reporting tool that extracts data from the group's various information systems. [Accounting System details]

During the verification, UPM provided two diagrams demonstrating the UPM Group's accounting systems, and how they interconnect. These diagrams form **Confidential Attachment GEN 3**.

Prior to the visit, UPM provided the following:

- UPM Annual Report 2013;
- UPM Auditor's Report 2013;
- audited financial statements for 2013;
- English translations of the 2013 financial statements and Auditor's Report.

Additional accounts and reports were collected during the verification, as discussed throughout this report.

2.3 Related parties

2.3.1 Customers

As outlined above, UPM transfers its entire production of newsprint to UPM Sales OY, which then on-sells to domestic French customers, or internationally. In the case of Australian sales of newsprint, UPM Sales OY transfers the goods to UPM AP, which then on-sells those goods to Australian customers. Details of these sales transactions are at Section 4.2 of this report.

The transaction between UPM and UPM Sales OY, and the subsequent transaction to UPM AP (in the case of Australian exports) are clearly related party transactions. The impact of this relationship on the calculation of dumping for the purposes of this report is discussed at Section 4.7 of this report.

UPM advised that the sales to domestic and third country customers by UPM Sales OY are to unrelated customers. Additionally, sales by UPM AP to Australian customers are also only to unrelated entities.

In respect of domestic sales by UPM Sales OY to the UPM Groups' final customers, we found no evidence of any relationship other than a commercial buyer/seller relationship between UPM Sales OY and any of its customers.

In respect of sales to Australian customers by UPM AP, we found no evidence of any relationship other than a commercial buyer/seller relationship between UPM AP and these entities.

2.3.1 Suppliers

UPM indicated that it is not related to any of its suppliers.

We found no evidence of any relationship other than a commercial buyer/seller relationship between UPM and any of its suppliers.

3 THE GOODS AND LIKE GOODS

3.1 The goods description

The goods under consideration (the goods) are:

newsprint in roll or sheet form having a weight within the range 40 grams per square metre (gsm) to 46 gsm (inclusive) and brightness below a measure of 70 ISO.

Additional product information

The application states that newsprint is classified to:

- tariff subheading 4801.00.20 with statistical code 02;
- tariff subheading 4801.00.31 with statistical code 04; and
- tariff subheading 4801.00.39 with statistical code 19.

Goods classified to tariff subheading 4801.00.31, statistical code 04, must have the following characteristics:

- weigh more than 57 gsm; or
- have ash content by weight of more than 8%.

The applicant advised that it is aware that some of the imported newsprint from Korea has an ash content more than 8%.

The Australian Customs and Border Protection Service (ACBPS) has provided tariff advice that in order for the goods to be correctly classified to the above tariff subheadings they also must comply with the requirements of Notes 3, 4 and 8 of the tariff Chapter 48.

The general rate of duty applied to goods exported from France and Korea are:

- goods classified under 4801.00.20 and 4801.00.31, a duty rate of 5% applies; and
- goods classified under 4801.00.39, statistical code 19, goods are duty free.

3.1.1 Tariff Concession Orders

There are no Tariff Concession Orders in place for the nominated goods.

3.1.2 By- Laws

In its application, the applicant states that there are a number of Policy By-Laws applicable to paper that may be used by newspaper end-users. The by-laws have been operational since the reductions in tariffs from the late 1980s. At that time, the Australian production of newsprint was supplemented with imported newsprint.

The applicant has indicated that it considers that imported newsprint would likely qualify for concessional entry under Customs By-law No. 1303878. The by-law states that:

- *the by-law shall take effect on and from 1 March 2013;*

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- for the purposes of item 48 of Schedule 4 of the Customs Tariff Act 1995, paper classified under headings 4801 or 4802 of Schedule 3 of the Customs Tariff Act 1995, is prescribed; and
- the application of item 48 to the goods in paragraph 3 is subject to the condition that the paper is for use in the production of newspapers, periodicals, posters and other printed matter of a kind that, if imported, would be classified within Chapter 49 in Schedule 3 to the Customs Tariff Act 1995, under security.

In addition to the conditions specified in paragraph 4 of By-law No. 1303878, condition 5 requires that the paper must:

- (a) contain more than 55% mechanical pulp and weigh less than 34 gsm;
- (b) contain more than 55% mechanical pulp, weigh less than 48 gsm but more than 40 gsm and have a water absorbency when tested by the one min Cobb method of not less than 45 gsm;
- (c) contain more than 25% mechanical pulp, contain no bleached chemical pulp and have a weight not exceeding 205 gsm; or
- (d) contain not less than 70% mechanical pulp; have a weight not exceeding 205 gsm and a water absorbency when tested by the one min Cobb method of not less than 45 gsm.

The applicant advised that in its opinion imported newsprint the subject of the application could fall under any of criteria (b) to (d) of the above.

3.2 UPM's production














3.2.1 Product range

During the verification, UPM provided a general presentation on the Chapelle Darblay mill, and the products manufactured there (this forms **Confidential Attachment GEN 4**).

UPM has two paper making machines at the Chapelle Darblay mill:

- Paper machine 3 (PM3); and
- Paper machine 6 (PM6).

The product range made on each of these paper machines is outlined in the below table (using UPM's product classifications).

Product			
Paper machines	PM6 and PM3	PM3	PM3
gsm		  	
Brightness		  	

Printing method (discussed below)	Coldset web offset and heatset web offset	Coldset web offset and heatset web offset	Coldset web offset and heatset web offset	Coldset web offset and heatset web offset	Coldset web offset and heatset web offset
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Table 1 Chapelle Darblay mill production range

UPM provided a catalogue of its coloured newsprint at the verification, to demonstrate the characteristics of this product. The forms **Attachment GEN 5**.

As shown in Table 1, the PM6 machine is used [REDACTED] 'standard' newsprint.

PM3 is a smaller, more flexible machine than PM6 and is used to make what UPM classifies as '[REDACTED]' newsprint [types of newsprint].

As defined above, the goods subject to the investigation are certain types of newsprint between 40 and 46gsm, with a brightness of below 70 ISO.¹ Therefore, the goods subject to the investigation are a sub-set of the above full range of products manufactured at the Chapelle Darblay mill by UPM, and are produced on both paper machines.

Specifically, we consider that UPM's range of 'newsprint', as defined by the goods description to be:

- all standard newsprint produced on the PM6 machine up to and including 46gsm thickness;
- standard newsprint manufactured on the PM3 machine up to and including 46gsm thickness; and
- some of UPM's UPM Brite range (up to 70 ISO brightness and 46gsm) produced on the PM3 machine.

Throughout the remainder of this report, references to UPM's 'newsprint' relate to the above collectively.

3.2.2 Production process

At the verification visit, a tour of the newsprint manufacturing operation was conducted. The production process was observed to be as follows.

Recovered paper delivery and sorting

All newsprint made at the Chapelle Darblay mill is made from recycled (recovered) paper, predominantly newspapers and magazines. The majority of this is from household waste collection.

Recovered paper (also known as 'RCP') is delivered to the mill, either directly from the supplier or from a UPM recovered paper storage warehouse nearby the mill (delivered to

¹ The Australian industry for newsprint has clarified that this excludes coloured newsprint (by virtue of the inclusion of the 70 ISO requirement in the goods description, which does not apply to coloured newsprint).

the warehouse by suppliers). In some cases, this paper is pre-sorted to remove foreign objects (a manual process that is performed prior to delivery at the mill) while in other cases, the paper arrives un-sorted.

RCP that is not already sorted is fed into the mill's refining machine, which mechanically sorts the paper through an optical sorting system to reach the desired quality.

De-inking and pulping

Sorted recovered paper is fed into the mill's three deinking pulp mills where it is combined with water and other chemicals and repulped into individual fibres and impurities such as ink and paper fillers are removed. Once processed, the pulp is sent to the applicable paper machine from the de-inking lines.

UPM has three deinking plants: DIP1; DIP2; and DIP3. Predominantly, DIP1 and DIP2 are used to feed PM3 (with DIP2 being diverted to the PM6 in exceptional circumstances), while DIP3 is used for PM6. However, UPM explained that small amounts of pulp from DIP3 sometimes feed into PM3 and small amounts of pulp from DIP3 sometimes feeding PM3.

The recovered paper optical sorting plant feeds into DIP3 and is therefore used exclusively for PM6.

The precise formula, or recipe, for the pulp mixture is referred to as the 'furnish'.

Paper machine process

The furnish, which in the initial stage of the production process includes approximately 99% water, is sprayed onto a forming screen of the paper machine and then enters a process of pressing and drying through the paper machine.

The pressing occurs by rolling the material between sheets of fabric referred to as *clothing*. The drying occurs through another series of rollers.

At the end of the paper machine, the paper passes through a series of rollers referred to as the calender. In this stage of the process the pressure applied by the rollers affect the surface finish and assists in achieving a uniform thickness.

After passing through the calender, the water content of the paper has been reduced to between 6 and 10%.

The paper is then wound onto a large mandrel upon which it may be stored.

Unrolling, slitting and packaging

In preparation for sale, newsprint on the large mandrels is unrolled, slit to various widths depending on the needs of the customer and re-wound onto small reels (with cardboard tubing as the core).

The reels are packaged using paper and cardboard on an automated packing line. Newsprint is packaged by wrapping the reels in strong paper and attaching two cardboard

'caps' at each end. Product labels with identification tracking details are also attached. Goods for all markets (domestic and export) are packaged in the same way.

The packaged paper is then sent to storage for sale.

UPM advised that its storage facilities at the Chapelle Darblay mill usually hold approximately [REDACTED] worth of supply [stockholding details].

Scrap and damaged paper

The newsprint production process produces small amounts of scrap (some slitting losses and edge trims), and some otherwise prime quality paper can become damaged in the production, packing or storage process.

Any such newsprint is recycled by re-introducing it into the pulping process.

Resource use

During the production process, a large volume of water is drawn from the Seine River, cleaned and used. Waste water is cleaned and returned to the river.

As part of its plant, UPM runs a boiler that generates electricity. This energy covers about [REDACTED] % of the mill's production needs. [REDACTED]

[REDACTED] [energy use details].

UPM explained that it fuels its boiler using:

- plastic waste from the sorting plant;
- 'sludge' (i.e. the ink waste from the de-inking plants); and
- wood (purchased).

UPM also consumes natural gas to fuel its boiler, which it purchases from domestic utility suppliers.

3.2.3 Heatset vs coldest web offset newsprint

As outlined in Table 1, UPM produces newsprint suitable for either 'coldset web offset' and 'heatset web offset' printing. UPM differentiates these in its product names by including either a 'C' or 'H' in the product name. For example:

- 'UPM News C' coldset web offset standard newsprint;
- 'UPM Ecobasic H' heatset web offset standard newsprint;
- 'UPM Brite C' coldset web offset brite newsprint.

UPM explained that the web offset type refers to the variety of printing machine and method used by the end user of the newsprint when printing onto the product.

UPM advised that the difference between the respective types of web offset newsprint is the size of holes that can be tolerated to be left in the product.

UPM advised that it has two categories of holes that can occur in its paper, category 1 (smaller) and category 2 (larger). These holes are identified at the end of the paper machine where the product is scanned before being wound onto the mandrel.

Both heatset and coldset web offset printers can tolerate category 1 holes. However, though category 2 holes can be tolerated by coldset web offset printers, they are a printing risk for heatset printing. Consequently, category 2 holes are removed through the above process. Until the removal of sections with category 2 holes, the respective types of paper are exactly the same. These holes are removed during the rewinding step (by slitting and re-joining the paper) to eliminate potential problems for printers using heat offset processes caused by those holes.

UPM indicated that the occurrence of category 2 holes is uncommon and the cost of removing the sections with the holes is minimal.

UPM advised that newspaper publishers use cold offset printing processes, and are able to use either heatset or coldset web offset newsprint as a result.

We queried whether this classification of newsprint as either being UPM News C or UPM Ecobasic H resulted in any price difference. UPM explained that,



[Pricing differentials]

3.2.4 Model comparability

The variables used in classifying different models of newsprint by UPM are:

- gsm;
- brightness; and
- whether the paper is classified as 'heatset' or 'coldset' web offset.

During our verification with UPM, we discovered that these three characteristics are also the characteristics that result in pricing differences between models, discussed further at Section 4.4.

Table 2 below depicts the models of newsprint manufactured by UPM sold to Australia by the UPM Group during the investigation period.

Product type	Product code	GSM	Heatset or coldset web offset newsprint	ISO (Brightness)
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Table 2 models exported to Australia

During the investigation period, the UPM Group made sales of the [REDACTED] models identical to those sold to Australia (as detailed in Table 2) on the domestic French market. In addition, the UPM Group sold numerous other models of newsprint manufactured at Chapelle Darblay on the domestic French market and to third countries during the investigation period.

A full listing of all models of newsprint manufactured at Chapelle Darblay and sold by the UPM Group during the investigation period, as well as other non-newsprint products manufactured at Chapelle Darblay (such as coloured product and above 70 ISO brightness product) is at **Confidential Attachment GEN 6**.

UPM submitted that newsprint sold on the domestic, third country and Australian markets that match in gsm, brightness and being either coldest web offset or heatset web offset is identical across those markets, with no physical differences between those goods.

In our observation of the manufacturing process and stored completed product, we did not identify any production or physical differences between newsprint destined for the Australian export market and newsprint sold domestically.

3.2.5 Sales volume

In the investigation period, UPM sold approximately [REDACTED] tonnes of newsprint (including applicable 'UPM Brite'). Of this, around [REDACTED] tonnes was manufactured on the PM6 machine.

Around [REDACTED] of the value of UPM's newsprint sales is sold in the domestic market and around [REDACTED] are exports to Australia. The remaining [REDACTED]% is sold to other countries.

3.3 Like goods assessment

We consider that newsprint produced by UPM for domestic sale have characteristics closely resembling those of the goods under consideration and are therefore "like goods" in accordance with subsection 269T(1).

3.4 Like goods data provided response to the exporter questionnaire

UPM explained that, in preparing its response to the exporter questionnaire, it had limited its data provided (both domestic and export) to those models sold to Australia (as identified in Table 2) manufactured on the PM6 machine. This included UPM's cost to make and sell data, which it only submitted for the PM6 machine (though this was for all gsms on aggregate and was therefore not limited to the Australian model gsms see Chapter 5).

UPM advised that this limitation was made as it understood the data provided in the response to the exporter questionnaire should be limited to the models sold to Australia and their exact domestic equivalents.

This is despite the fact that various other models of newsprint manufactured by UPM were sold by the UPM Group on the French market and to third countries in the

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investigation period, and were produced by both the PM6 and PM3 machines (as detailed in Section 3.2.1).

We have discussed the omission of this data and the impact on UPM's assessment of dumping throughout this report.

4 EXPORT SALES TO AUSTRALIA

4.1 General

4.1.1 Export sales data provided

In its response to the exporter questionnaire, UPM provided a detailed *Australian Sales* listing, providing line-by-line detail on all newsprint sales to Australian customers during the investigation period.

This listing was generated from the [REDACTED] system, showing the final invoiced price between UPM AP and the Australian customers.

The sales listings included various details including:

- customer name;
- UPM's product code;
- invoice number and date;
- invoice price in AUD;
- invoice price in Euros [REDACTED]
[REDACTED]; [price conversion details]
- quantity (in tonnes); and
- shipping and payment terms.

The *Australian Sales* listing forms **Confidential Attachment EXP 1**.

4.1.2 Customer details

The UPM Group has [REDACTED] customers in Australia that purchase newsprint manufactured by UPM. However, these customers physically purchase directly from UPM AP, with assistance from UPM Australia (sales process discussed further below).

One of these customers, [REDACTED] is a newspaper publisher. The terms and conditions of trade between [REDACTED] and the UPM Group are established in a 'Newsprint Supply Agreement' that is contracted between [REDACTED] and UPM Australia (a copy of the agreement that relates to the investigation period forms **Confidential Attachment EXP 2**). This agreement establishes pricing and price negotiation terms, as well as ordering, shipping and payment terms.

Another customer, [REDACTED], is a printer of a broad range of material including magazines and advertising material. This customer purchases several types of paper from UPM AP as well as newsprint, [REDACTED]
[REDACTED] [agreement details]. For this [REDACTED] customer, different types of paper purchased may originate from any of several mills owned by UPM-Kymmene. However, all the newsprint it sources is manufactured by UPM.

4.2 Export sales process and role of UPM Group entities

4.2.1 Sales process

The export sales process is as follows:

- UPM Australia negotiates price and delivery arrangements with Australian customers.
- Australian customers place orders with UPM Australia.
- UPM Australia enters the order into the [REDACTED] system which automatically places the order in the [REDACTED] system, which is accessed by UPM at the Chapelle Darblay mill.
- The mill confirms the order in [REDACTED] and it begins production of the goods to order.
- UPM Australia sends an order confirmation to the Australian customer following receipt of the mill's confirmation.
- Once produced, UPM loads the goods into shipping containers at the mill for export, and they are sent directly to La Havre port for shipping.
- When the goods are loaded into a container by UPM, the bar codes on the goods trigger a Packing List to be printed at UPM Australia which forwards a copy to the customer.
- A proforma invoice from UPM AP to the customer is automatically prepared and sent to the customer.
- When the goods are delivered to the customer, UPM AP issues a final invoice to the customer.
- Credit terms apply from the date the goods are delivered to the customer.
- Customers pay UPM AP by telegraphic transfer to UPM AP's account, and this payment is fed back through the UPM Group entities to UPM.

4.2.2 Role of UPM Group entities in the export process

Several UPM Group entities are involved in the export sale process of UPM-produced newsprint. The roles of these various UPM Group companies in the export transaction are outlined below.

In addition to describing the roles of each party, UPM provided a diagram of the *UPM Sales OY operating mode Sale of paper products to customers in Asia*, which the company explained outlines sales model for all UPM Group paper products in Asia (including newsprint). This forms **Confidential Attachment EXP 3**.

UPM

UPM is the manufacturer of the exported goods. As outlined above, the company:

- produces the goods at the Chapelle Darblay mill;
- packages the goods for final sale; and
- loads the goods into shipping containers for export.

Once manufactured and packaged (i.e. finished goods), UPM transfers ownership of the goods to UPM Sales OY for on-sale.

UPM Sales OY

As outlined above, UPM Sales OY 'purchases' the production of UPM, and then 'sells' the goods to UPM AP for on-sale to Australia.

The arrangement between UPM and UPM Sales OY are established in a distribution agreement attached as **Confidential Attachment EXP 4**.

We observed that this agreement establishes that:

- ownership of newsprint transfers from UPM to UPM Sales OY [REDACTED]
[REDACTED]
[REDACTED] [details of company transfer];
- newsprint is transferred between each party [REDACTED]
[REDACTED]
- [REDACTED]
[REDACTED] [details of price between parties];
- the method under which the final [REDACTED] price is to be established; and
- UPM Sales OY is entitled to withdraw a sales margin from the transaction at an agreed price, to ensure that company is able to trade profitably as an independent company (the amount of this is defined in the agreement). [details of Agreement conditions]

The *UPM Sales OY operating mode* diagram discussed above (Confidential Attachment EXP 2) identifies UPM as a 'full-fledged manufacturer' [REDACTED]

[REDACTED] [details of earnings].

[REDACTED]
[REDACTED] [reasons for current sales process being established].

[REDACTED]
[REDACTED].

[REDACTED] [Operational arrangements of UPM Sales OY]

UPM AP

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UPM AP purchases the goods from UPM Sales OY for the final sales transaction to the Australian customer.

The arrangements between UPM Sales OY and UPM AP are defined in a distribution agreement, attached as **Confidential Attachment EXP 4**.

We observe the following components of this agreement:

- UPM AP solicits customers and undertake sales in its own name, but may appoint other entities to act as sales agents on its behalf;
- [redacted] [pricing arrangements];
- [redacted] [passage of title arrangements];
- UPM AP is entitled to withdraw a sales margin from the transaction at an agreed price, to ensure that company is able to trade profitably as an independent company (the amount of this is defined in the agreement);
- the commission rates for agents of UPM AP (including Australian agent rates) are established in the agreement, and amended by appendices (also included in Confidential Attachment EXP 4) [agreement details].

UPM AP issues invoices to Australian customers, and receives payment directly for the goods sold.

UPM AP pays commission to UPM Australia [redacted] [frequency] for that entity's role in facilitating the sale (see below).

UPM explained that the reason why UPM AP is involved in the export transaction is purely a matter of administrative convenience for its Australian (and other Asia-Pacific) customers. The UPM Group felt that it would be a better business approach to have UPM AP as the single purchasing point for these export customers for all paper products from the UPM Group, as opposed to buying certain products from UPM AP, and others from UPM Sales OY, etc.

It was explained that, although UPM AP appears on invoices and is the final selling entity of the UPM Group, it is in practicality a 'phantom' in the transaction, which is only used in name. Although payments are made into and out of UPM AP's accounts, and the company facilitates delivery of the goods to Australian customers, these functions are in fact performed by the Shanghai office of UPM-Kymmene in UPM AP's name.

UPM therefore submitted that UPM AP engages no resources, and incurs no costs, in selling newsprint to Australian customers.

UPM explained that [redacted]

[redacted]. This is contained in the standard terms and conditions included in

the invoice from UPM AP to the Australian customer. A copy of these terms forms **Confidential Attachment EXP 5** [ownership details].

The *UPM Sales OY operating mode* diagram discussed above (Confidential Attachment EXP 2) identifies UPM AP as a 'limited risk distributor' that receives '[redacted]
[redacted]' [profit details].

UPM Australia

UPM Australia acts as a sales agent for UPM AP in Australia on a commission basis, negotiating and facilitating sales with Australian customers on behalf of UPM AP. The precise amount of commission is reviewed annually.

UPM explained that the Commission is designed to [redacted]
[redacted] [commission details].

The arrangements between UPM AP and UPM Australia are contained in a sales company agency agreement, attached as **Confidential Attachment EXP 6**. Key elements of this agreement are:

- UPM Australia is to act as a non-exclusive agent for UPM AP;
- all business is to be conducted in accordance with prevailing market prices, [redacted];
- UPM Australia is to satisfy itself of the solvency of customers granted credit, on behalf of UPM AP;
- UPM Australia is entitled to a commission, reviewed annually;
- title of the goods [redacted];
- the Commission rate is set out in appendices which are included in Confidential Attachment EXP 6. [Agreement details redacted]

The *UPM Sales OY operating mode* diagram discussed above (Confidential Attachment EXP 2) identifies UPM Australia as a 'limited risk agent service provider' that receives '[redacted] profits' [profit details].

4.3 Delivery terms and facilitation

During the investigation period, the goods were all sold on [redacted] [Confidential: trading terms] terms, including all expenses up to the point of delivery at the Australian customer's nominated location.

As outlined above, the goods are containerised at the Chapelle Darblay mill by UPM and then moved to the port via road transport for shipment to Australian ports.

Export charges, shipping and marine insurance of the goods is arranged and paid for by UPM Sales OY.

Import charges, facilitation and Australian delivery is arranged by UPM Australia [REDACTED]

[REDACTED]. Consequently, all export, import and logistics charges are incurred by UPM Sales OY [payment details].

4.4 Pricing

As outlined above, there are three separate 'prices' in the export transaction:

- 1) between UPM AP and the end customer;
- 2) between UPM Sales OY and UPM AP; and
- 3) between UPM and UPM Sales OY.

Each are discussed in detail below.

4.4.1 UPM AP and Australian customers

UPM explained that prices to Australia are set in Australian dollars (AUD).

The prices to Australian customers, although being physically between UPM AP and the customer, are negotiated by UPM Australia with those customers.

UPM explained that prices [REDACTED]

[REDACTED] [Confidential: customer pricing]

[REDACTED], the pricing between UPM AP and the customer is established in line with pricing guidelines set by the Paper ENA division. The UPM Group maintains a pricing matrix that is maintained in a [REDACTED] system accessible by UPM Australia.

UPM France explained that

[REDACTED]. The prices are set with reference to market intelligence of global newsprint prices. [Pricing policy & practice details]

UPM explained that [REDACTED]

[REDACTED] [Pricing policy & practice details]

UPM provided a printout of the price matrix from the [REDACTED] system for the term of the investigation period. This forms **Confidential Attachment EXP 7**.

UPM also provided copies of agreed pricing to each customer during the investigation period, which form **Confidential Attachment EXP8**.

Pricing observations

We observed that the price matrix confirmed that the following characteristics impact the pricing of UPM's newsprint:

- gsm [REDACTED]
- brightness ([REDACTED] and
- whether the paper is classified as 'heatset' or 'coldset' web offset [REDACTED]

[Pricing practices]

In relation to Australian sales specifically, we observed that the provided price listings included [REDACTED]

[pricing observations].

4.4.2 UPM Sales OY and UPM AP

The agreement between UPM Sales OY and UPM AP establishes a methodology for working out a '[REDACTED] price' between these two entities for paper products.

[REDACTED] [Pricing details]

² Noting that no UPM Brite was sold to Australia during the investigation period in any case.

4.4.3 UPM and UPM Sales OY

[REDACTED] price

As outlined previously, [REDACTED] production of UPM regardless of destination, is transferred to UPM Sales OY for on-sale. [REDACTED]

[REDACTED]

[REDACTED]

[Price setting and adjustments]

Final [REDACTED] price

As discussed above, the method through which the [REDACTED] price between UPM and UPM Sales OY is established is in the trading agreement between those two entities (Confidential Attachment EXP 4). The trading agreement states that the [REDACTED] price is to be established as:

The final net selling price to customers (UPM AP to Australian customer)

LESS: [REDACTED]

LESS: [REDACTED]

LESS: [REDACTED]

LESS: [REDACTED]

[Price adjustment details]

UPM explained that:

- [REDACTED]
- [REDACTED]
- [REDACTED]

[Price adjustment explanations]

We understand that the 'profit' achieved by UPM Sales OY is [REDACTED]

[Profit levels]

UPM provided a presentation slide outlining what costs are covered by the sales margin/commission. This forms **Confidential Attachment EXP 9**.

In addition, UPM provided us with a printout from its [REDACTED] System of how the [REDACTED] price is calculated in that system, as well as a [REDACTED] price presentation slide. These form **Confidential Attachment EXP 10**.

4.5 Verification of sales to audited accounts

For the purposes of this report, the verification of provided export, domestic and third country sales data for newsprint to audited accounts are discussed collectively in this section.

Separate discussion of UPM's domestic sales generally and the verification of those sales to source documents is found in Chapter 6 of this report. Discussion of third country sales can be found in Chapter 7 of this report.

4.5.1 Step one Domestic, Australian and Third Country sales listings to Sell It all sales listing

To assist with the verification of submitted sales data to UPM's audited accounts, UPM provided a detailed sales download [REDACTED] for the period January 2010 to August 2014 (thereby encompassing the investigation period). This file allowed the isolation of sales by gsm, product [REDACTED], paper machine [REDACTED] and destination country.

This detailed sales listing forms **Confidential Attachment EXP 11**. The collection of this file provided us with all sales data of all products sold during the above period that was manufactured at the Chapelle Darblay mill, not merely the limited sales data provided by UPM's response to the Exporter Questionnaire (discussed at Section 3.4).

We were able to use this detailed sales listing to reconcile to the response to the exporter questionnaire Australian, domestic and third country sales listings, as outlined below.

Australian Sales listing

We filtered the [REDACTED] detailed sales listing to isolate sales made to Australia during the investigation period. We observed that, in line with UPM's previous explanations, this showed only sales of newsprint models as shown in Table 2 above, and only newsprint produced on the PM6 machine.

We observed that the total quantity (tonnes) sold in the *Australian Sales listing* directly matched the total investigation period sales volume in the [REDACTED] all sales listing. However, we observed that the sales value in Euros recorded in the *Australian Sales listing* did not directly reconcile to the [REDACTED] listing.

UPM explained that this was due to the fact that [REDACTED]
[REDACTED]
[REDACTED].

[sales value reconciliation details]

For verification purposes, we calculated a EUR sales value in the *Australian Sales listing*

[REDACTED]
[REDACTED]. We observed that the total of this sales value in EUR reconciled directly with the [REDACTED] sales listing for sales to Australia in the investigation period. [Calculation details]

Verification of the exchange rates and assessment of the rate to be used for determining export price is at Section 4.6.5.

Domestic sales listing

As with Australian sales, UPM provided a *Domestic Sales* listing for sales of newsprint in its response to the Exporter Questionnaire. The contents of this data are detailed at Section 6.1.1.

As previously discussed, UPM incorrectly limited this data to sales of newsprint that exactly matched those sold to Australia during the investigation period, being:

- [REDACTED]
- [REDACTED]
- [REDACTED]

produced on the PM6 machine.

However, domestic sales of newsprint were made during the investigation period of various other models manufactured on the PM6 machine, as well as newsprint manufactured on the PM3 machine.

We were able to perform a sales volume and value reconciliation between the *Domestic sales* listing and the [REDACTED] listing, when the [REDACTED] listing was filtered to only include sales to France of the above-named models and the PM6 machine's production.

Third country sales

UPM provided aggregate (country total) sales data for all export sales to countries other than Australia. This data is discussed in further detail in Chapter 7.

As with domestic sales, this sales data was limited to the same models of newsprint as those exported to Australia, produced on the PM6 machine, despite newsprint produced on the PM3 machine and various other PM6 machine models being sold to these export destinations in the investigation period.

As with domestic sales, we were able to perform a direct reconciliation of the aggregate third country sales volume and value data to the [REDACTED] all sales listing, when that listing was filtered for the appropriate models, countries and the PM6 machine.

4.5.2 Step two [REDACTED] all sales listing to PM6 income statements

We then sought to reconcile the [REDACTED] all sales listing to an appropriate UPM income statement.

As discussed in Section 2.2, UPM

[REDACTED]. UPM is therefore able to generate income statements by machine. [Accounting practices]

In addition, UPM advises that [REDACTED] it maintains different versions of its income statements:

1) An 'S' version of accounts, that:

- a. [REDACTED]
- b. [REDACTED]
- c. [REDACTED]
- d. [REDACTED]

2) A 'non-S' version that:

- a. [REDACTED]
 - b. [REDACTED]
 - c. [REDACTED]
- [Alternative Accounting treatments]

UPM explained that the non-S version accounts are audited, while the 'S' version are management accounts designed to show the true profitability of each paper machine, and are not audited.

During the verification, UPM provided the following copies of its PM6 machine income statements:

- the 'S' version for the investigation period by quarter and a period total;
- the 'S' version for the 2013 financial year³ by quarter and an annual total;
- the 'non-S' version for the 2013 financial year (annual total); and
- monthly 'non-S' income statements for October, November and December 2013 for the whole mill, and separately for PM3 and PM6.

These statements form **Confidential Attachment EXP 12**.

³ January December

We observed that, when filtered to show the investigation period and the PM6 machine, the [REDACTED] sales listing net sales value reconciled directly to the investigation period 'S' version income statement revenue. When filtered on the 2013 financial year, the [REDACTED] listing reconciled to the 'S' version 2013 income statement.

We observed that the revenue recorded in the 'non-S' version of the accounts was approximately [REDACTED]% lower than the customer-invoiced revenue recorded in the 'S' version accounts. This corresponds with the previous discussion on how price is set between UPM entities, [REDACTED]
[REDACTED]. [Pricing Practices]

Although this reconciliation was only undertaken for the PM6 machine, we are satisfied that the [REDACTED] listing, when filtered on the PM3 machine, would equally reconcile.

4.5.3 Step three PM6 income to UPM audited reports

We then sought to reconcile the 'non-S' PM6 income statement to UPM's audited accounts.

UPM explained that, in order to do so, we would need to combine the PM6 revenue with the revenue of all other profit centres of UPM to arrive at a company-wide total [REDACTED]).

UPM provided a report showing individual income statements for all UPM profit centres for the 2013 financial year. This report included a company-wide income statement totalling all of these profit centre-level statements.

This report forms **Confidential Attachment EXP 13**.

We observed that the PM6 income in this report exactly matched the 'non-S' PM6 financial year 2013 income statement discussed above (part of Confidential Attachment EXP 13).

We observed that the sum of the revenue recorded in the income statement for the whole company reconciled directly with UPM's 2013 audited financial reports income statement (**Confidential Attachment EXP 14**).

In performing this reconciliation, we examined each of the other listed profit centres in Confidential Attachment EXP 14 to be satisfied that no other profit centre (beside the PM3 profit centre) included revenue for newsprint. In doing so, we were satisfied that all profit centres besides the PM6 and PM3 did not relate to sales of newsprint or paper products in general.

However, we discovered that one profit centre (identified as 'rcpfr') related to a warehouse facility used by the Chapelle Darblay mill to store recovered paper (and some sales of excess RCP are made from this warehouse). This is discussed further at Section 5.5.4.

4.5.4 IFRS and French GAAP audited accounts

As outlined in Section 2.2, in addition to statutory accounts kept in accordance with the IFRS, UPM also maintains statutory accounts that are kept in accordance with the French GAAP.

UPM explained that several differences exist between the French GAAP and the IFRS, including when revenue can be accounted for, and the calculation of depreciation.

UPM provided a copy of its 2013 French GAAP income statement and balance sheet, and demonstrated a reconciliation between the French GAAP income statement and the IFRS income statement. The French GAAP accounts and reconciliation documents form **Confidential Attachment EXP 15**.

4.5.5 Conclusion

Having reconciled UPM's Australian, domestic and third country sales listings to the company's audited accounts, we are satisfied that the sales data included in UPM's response to the exporter questionnaire in relation to the following models of newsprint produced on the PM6 machine is a complete record of those sales, contains all relevant sales of those models and does not contain any irrelevant sales of those models:

- [REDACTED]
- [REDACTED]
- [REDACTED]

[Model details]

We are satisfied that no other models of newsprint were sold to Australia during the investigation period, and that all sales to Australia were produced on the PM6 machine.

We are satisfied that the [REDACTED] detailed sales listing (Confidential Attachment EXP 12) is a full sales listing of all products produced by UPM at the Chapelle Darblay mill for the period January 2010 August 2014, and that this can be readily manipulated to arrive at complete and relevant sales listings for newsprint by market if required.

4.6 Verification of export sales to source documents

Prior to the visit, we selected 12 sales from the *Australian Sales listing* and UPM was requested to provide source documents in relation to each invoice.

For each selected invoice, UPM provided copies of the following documents (which form **Confidential Attachment EXP 16**):

- purchase order;
- order confirmation by *pro forma* invoice;
- commercial invoices from UPM AP to the customer;
- invoice from UPM Sales OY to UPM AP;
- packing list;
- shipping company invoices that include ocean freight, inland transport and terminal handling charges;
- invoice for cartage at destination, Customs declaration fees and agency fees;
- Bill of Lading; and

- proof of payment from the Australian customer to UPM AP.

4.6.1 Export volume

We checked the volume of newsprint sold to Australian customers as listed in the *Australian sales* spreadsheet and found that it matched the respective amounts in the source documents.

4.6.2 Sales value

We checked the net invoice value (AUD) and unit price (AUD/Tonne) of newsprint sold to Australian customers listed in the *Australian sales* spreadsheet and found that it matched the respective amounts in the source documents.

We found no evidence of any discounts or rebates applicable to any of the selected transactions. Payment terms and proof of payment

We checked the credit and payment terms of newsprint sold to Australian customers as listed in the *Australian sales* spreadsheet and found that they matched the respective terms in the source documents.

We confirmed that the invoice date on the provided invoices matched the invoice date in the *Australian Sales* listing.

We confirmed that customers met the payment terms by paying invoices in full by the due date.

4.6.3 Shipping terms

We checked the shipping terms of newsprint sold to Australian customers as listed in the *Australian sales* spreadsheet (all [REDACTED] [Confidential: trading terms]) and found that they matched the respective terms in the source documents.

4.6.4 Exchange rates

As outlined previously, the *Australian Sales listing* calculated an invoiced amount in Euros [REDACTED]. The [REDACTED] rate was used to perform reconciliation between the listing and UPM's audited accounts (see Section 4.5.1).

We observed that the conversion from [REDACTED] to Euros [REDACTED]

- [REDACTED]

- [REDACTED]

UPM submitted that [REDACTED]

[REDACTED]
[REDACTED].
UPM submitted that the correct exchange rate that should be used for establishing a EUR export price is [REDACTED]

[REDACTED] the rates actually incurred in the export transaction.

We sought to verify both rates to source documents.

[REDACTED]

[REDACTED]

We observed that [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED] rates were recorded correctly in the *Australian Sales listing* [REDACTED]
[REDACTED].

UPM provided a package of source documents

[REDACTED] which we were able to reconcile to Confidential Attachment EXP 18. This package forms **Confidential Attachment EXP 18**.

[REDACTED]

UPM explained that the [REDACTED] rates recorded in the *Australian Sales listing* were those recorded by the UPM Group in its accounting system, derived from the Bank of Finland. The company provided a printout generated from the [REDACTED] system of the daily [REDACTED]:EUR [REDACTED] rates recorded by the UPM Group. This forms **Confidential Attachment EXP 19**.

We observed the exchange rates listed in this report directly reconciled to the [REDACTED] rates

In light of the above, we are satisfied that the rate of exchange and methodology used by UPM in converting AUD invoice prices to Euros in its *Australian Sales listing* is accurate and reasonable, and should be used for determining an export price in Euros. [Exchange Rate Methodology]

4.6.5 Ocean freight

We checked the amounts of ocean freight for newsprint sold to Australian customers as listed in the *Australian sales* spreadsheet and found that they matched the respective amounts in the source documents.

4.6.6 Marine insurance

We checked the amount of marine insurance and found that UPM applied amounts of [REDACTED] per tonne which is equivalent to less than [REDACTED]% of the price of newsprint per tonne. UPM indicated that marine insurance is based on an amount paid by UPM Sales OY for all companies in the group and is allocated by tonne to individual line items in invoices.

4.6.7 Inland transport

We checked the amounts of inland transport for newsprint sold to Australian customers as listed in the *Australian sales* spreadsheet and found that they matched the respective amounts in the source documents.

4.6.8 Terminal handling and other export port costs

We checked the amounts of terminal handling and other export port costs for newsprint sold to Australian customers as listed in the *Australian sales* spreadsheet and found that they matched the respective amounts in the source documents.

4.6.9 Commission

We checked the amounts of commission paid for newsprint sold to Australian customers as listed in the *Australian sales* spreadsheet and found that they matched the respective amounts in the agreement between UPM AP and UPM Australia (Confidential Attachment EXP 6).

4.6.10 Cartage and customs charges

We checked the amounts of cartage and customs charges for newsprint sold to Australian customers as listed in the *Australian sales* spreadsheet and found that they matched the respective amounts in the source documents.

4.6.1 Credit costs

UPM did not include a calculation for credit costs in its *Australian Sales* listing. In its response to the Exporter Questionnaire, UPM submitted that the average cost of credit is calculated by UPM with reference to Euribor (Euro Interbank Offered Rate) credit rates plus a margin. UPM explained that the margin is used to cover charges incurred from UPM-Kymmene when the UPM Paper ENA division borrows short term money under its commercial terms.

In its response to the Exporter Questionnaire, UPM submitted the monthly Euribor rates for the investigation period. We were able to verify these rates to publicly available published rates.

We have calculated the cost of credit for Australian export sales using the Euribor rates, plus UPM's margin, and the actual days of credit recorded for Australian customers.

4.6.2 Conclusion

Following verification to source documents, we are satisfied with the accuracy of UPM's *Australian sales spreadsheet*.

4.7 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.

We are satisfied that, during the investigation period, UPM:

- was the manufacturer of the goods;
- sold the goods immediately after packaging to UPM Sales OY and therefore did not own the goods at the time of export;
- is the principal in the transaction located in the country of export from where the goods were shipped that gave up the goods in the hands of a freight forwarder for delivery to Australia; and
- sent the goods for export to Australia and knowingly placing the goods in the hands of a freight forwarder for delivery to Australia.

We are therefore satisfied that UPM is the principal in France that knowingly sent the goods for export.

However, as discussed throughout this report, we consider that there is a close relationship between other UPM Group entities involved in the export transaction, and these entities play significant roles in this transaction. Specifically:

UPM Sales OY:

- 'purchases' the goods [REDACTED] from UPM;
- owned the goods at the time of export;
- sold the goods to UPM AP to meet orders placed by Australian customers; and
- arranged and paid the inland freight, export handling and ocean freight, as well as importation charges in Australia and cartage.

UPM AP:

- purchased the goods from UPM Sales OY

[REDACTED];

- sold the goods to Australian customers at the final price including UPM AP's commission; and
- received payment for the goods from Australian customers. [Price details]

Due to the circumstances of the export goods being manufactured by UPM, transferred to UPM Sales OY and sales to Australia being made by UPM AP after a further related-company transfer, we considered treating the three 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*⁴.

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 IA⁵ 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:

...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, UPM Sales OY and UPM AP are wholly owned by UPM-Kymmene. UPM manufactures the goods and is required under an agreement to sell all of its production to UPM Sales OY. In the case of export sales to Australia, export sales are required under an agreement to be made by UPM Sales OY to UPM AP which, in turn, sells the goods to the Australian customer. We understand that the export sales process has been established in such a way as to fulfil corporate objectives of:

- harmonising European paper sales through one entity (UPM Sales OY); and

⁴ WT/DS312/R

⁵ Investigating authority

- providing Australian customers with a single supplier for UPM Group products rather than having to purchase from multiple entities (UPM AP).

Further, each related company transaction is at a [REDACTED] price, which we consider to be impacted by the relationship between the parties and hence not at arm's length (see Section 4.9 below for further assessment).

Considering the close structural and commercial relationships between UPM, UPM Sales OY and UPM AP, we consider that it is appropriate to consider the three companies as a single entity for the purpose of calculating a dumping margin.

We therefore recommend that all three entities be considered the 'exporter' for the purposes of assessing dumping in relation to the goods exported to Australia.

4.8 The importer

In determining what entity is the importer of goods exported to Australia, the Commission examines the role of the parties, their functions and responsibilities in the export transactions, and decides on who is the beneficial owner of the goods at the time of importation.

In relation to the goods purchased by [REDACTED], that entity:

- is described as the party to whom the goods are sold on UPM's Order Acknowledgement
- is listed as the importer on the customs entry;
- is listed under Notify Parties on the Sea Waybill;
- is described on the invoice for cartage in Australia, Customs Declaration fee and Agency fees as the importer;
- is described on UPM's Packing List as the Invoice Customer;
- purchases the goods on a [REDACTED] [Confidential: trading terms] basis, where the goods are delivered directly to their premises by UPM AP;
- is invoiced by UPM AP for the goods; and
- pays UPM AP directly for the goods on [REDACTED] day terms.

In relation to goods purchased by [REDACTED], that entity:

- is described as the party to whom the goods are sold on UPM's Order Acknowledgement
- is listed as the importer on the customs entry;
- is listed as the Consignee on the Sea Waybill;
- is described on the invoice for cartage in Australia, Customs Declaration fee and Agency fees as the importer;
- is described on UPM's Packing List as the Invoice Customer;
- purchases the goods on a [REDACTED] [Confidential: trading terms] basis, where the goods are delivered directly to their premises by UPM AP;
- is invoiced by UPM AP for the goods; and
- pays UPM AP directly for the goods on [REDACTED] day terms.

UPM AP

- is invoiced by UP Sales OY for the amount [REDACTED];
[Invoice price details]
- pays UPM Sales OY for the goods;
- sells the goods to Australian customers on a [REDACTED] [Confidential: trading terms] basis;
- stipulates on invoices to Australian customers that it is the seller and owns title to the goods [REDACTED]; [Title conditions]
- pays for cartage, Customs Declaration fees and Agency fees in Australia and is reimbursed for this by UPM Sales OY;
- is listed as the consignee on the Bills of Lading;
- arranges for the international shipping and insurance for the goods.

Having reviewed relevant information gathered at this verification, and having found that the goods are sold to Australian customers on a [REDACTED] [Confidential: trading terms] basis, we consider UPM AP to be the beneficial owner of the goods at the time of importation, and therefore the importer. At the visit, UPM indicated that it agrees that UPM AP is the beneficial owner of the goods [REDACTED].
[Ownership details]

4.9 Arm's length

UPM to UPM Sales OY

In respect of UPM's sales transactions to UPM Sales OY during the investigation period, the price between the parties is a '[REDACTED] price' that is influenced by a commercial or other relationship between the buyer and the seller. We therefore consider this transaction to not be arm's length.

UPM Sales OY to UPM AP

In respect of UPM Sales OY's sales transactions to UPM AP during the investigation period, we consider that the transaction does not involve a market-established price between the parties but rather it is an intercompany transfer for the purposes of making the sale in UPM AP's name. As such, we consider the price between UPM Sales OY and UPM AP to be influenced by a commercial or other relationship between the buyer and the seller and not at arm's length.

UPM AP to Australian customers

In respect of UPM AP's sales transactions to Australian customers 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; or
- the buyer, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider that the transactions from UPM AP to Australian customers during the investigation period were arm's length transactions.

4.10 Export price preliminary assessment

In relation to UPM-manufactured newsprint exported to Australia by the UPM Group, we consider that the goods have been exported to Australia by the importer (noting that UPM AP is also considered to be the exporter due to the collapsing of UPM, UPM Sales OY and UPM AP discussed above).

Consequently, we consider that export price cannot be determined under s. 269TAB(1)(a) or (b).

We therefore recommend that the export price be determined under s. 269TAB(1)(c), having regard to all the circumstances of the transaction.

We consider that export price under s. 269TAB(1)(c) should be determined as the price as paid by the Australian customer to UPM AP, at the free on board (FOB) level of trade. Export price calculations form **Confidential Appendix 1**.

5 COST TO MAKE & SELL

This Chapter focuses on the verification and assessment of reasonableness of the calculations in UPM's submitted cost to make and sell (CTMS) data.

5.1 Data provided

In its response to the Exporter Questionnaire, UPM submitted unit CTMS calculations for newsprint produced on the PM6 machine on aggregate (not broken into gsm models) for the investigation period by quarter. These calculations were provided separately for the domestic and Australian market.

The CTMS as submitted in the Exporter Questionnaire is attached at **Confidential Attachment COSTS 1**.

As discussed at Section 2.2, UPM maintains actual costs for each paper machine, each being a separate profit centre, but does not maintain actual costs to a model (gsm) level. Discussion of how we were able to arrive at reasonably accurate model-levels costs using standard model-level costs kept by UPM is discussed in Section 5.3 below.

As discussed at Section 3.4, UPM did not provide CTMS calculations for newsprint manufactured on the PM3 machine in its response to the Exporter Questionnaire. The data provided related only to the PM6 machine at an aggregate (all model) level.

UPM reasoned that, as only PM6-machine product was exported to Australia, it was only necessary to provide CTMS calculations for that machine. However, as noted in Section 3.4, UPM (via UPM Sales OY) did make sales of newsprint produced on the PM3 machine during the investigation period to domestic and third country customers (being either 'standard' newsprint or 'brite' newsprint up to 70 ISO in brightness).

The detailed [REDACTED] sales listing provided by UPM for both machines (Confidential Attachment EXP 12) demonstrates that these PM3 newsprint sales account for [REDACTED]% of all like goods sold on the French domestic market during the investigation period and, accounts for [REDACTED]% of all domestic sales of 42 and 45 gsm standard newsprint (the models sold to Australia and the domestic models used to determine normal value for these Australian sales see Chapter 8).

Following discussions with UPM, we note that the costs of manufacture of newsprint on the PM3 machine are likely to be different to that of newsprint produced on the PM6 machine, due to several reasons, including:

- [REDACTED]

- [REDACTED]

- [REDACTED]
- [REDACTED]

[Cost differences]

These differences are discussed throughout this chapter.

We note that the impact of some of the above differences in costs between paper machines in producing newsprint would be to increase the cost of newsprint produced on the PM3 in comparison to the PM6, while others would result in a comparative decrease in costs. However, we note that the overall likely impact is to make the cost of manufacturing newsprint on the PM3 less than on the PM6, which is confirmed by the applicable costs per unit for the PM6 recorded in the company's standard costing system, the 'Product Control Management' tool (discussed in detail below).

However, noting the comparatively small volume of PM3 newsprint included in the pool of sales of like goods used for determining normal value for the purposes of this report (see Chapter 8), we consider it reasonable to adopt the CTMS of the PM6 machine for the purposes of conducting ordinary course of trade tests on the PM3 domestic sales data in this report, and have not pursued accurate calculations of PM3-produced newsprint from UPM as a result.

We observe that the omission of PM3 CTMS results in costs for 'brite' newsprint (above ISO 59 of standard newsprint and up to ISO 70 of the goods description) being unavailable. However, as only 42 and 45 gsm standard newsprint was sold to Australia and domestic sales of exact model matches of these have been used for normal value calculations, we do not consider it necessary to have access to this data for the purposes of this report.

5.2 Value of CTMS categories

UPM's CTMS shows the weighted average percentage break-down of costs items for domestic costs for all models on aggregate is as follows.

Category	Sub-category	Proportion of total CTMS
Variable manufacturing (material) costs	RCP	■
	chemicals	■
	energy	■
	packaging	■
	wires and felts	■
	other variables	■
Fixed costs	direct labour	■
	special items in direct labour	■
	maintenance costs	■
	other fixed costs	■
	special items in other fixed costs	■
Other costs	service charge	■
	financial costs	■
	delivery expenses	■
	depreciations	■

Table 3: UPM's cost categories as a percentage of total CTMS

5.3 Revision CTMS by gsm model

Prior to, and during the verification, we discussed with UPM the desirability of splitting the PM6 costs to arrive at unit CTMS by model as opposed to the submitted aggregate (all model) CTMS.

Noting that there is little cost difference in producing heatset or coldset web offset papers (related to the removal of uncommon holes: see Section 3.2.3), we considered that it was appropriate to only pursue model-level costs to the gsm level.

As outlined above, UPM explained that it was unable to arrive at actual costs by gsm models, as it only records actual costs on a machine-level basis. However, UPM explained that it does maintain a 'Product Control Management' (PCM) tool, which contains standard costs of manufacture by gsm model. UPM suggested that the relativities in this PCM model-level cost detail could be used to split the actual costs recorded to arrive at reasonably accurate actual model-level costs.

The company explained that, as a matter of practice, it reconciles the standard costs in the PCM to the actual aggregate incurred costs on a quarterly basis. This reconciliation is

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performed by multiplying the unit (per tonne) PCM production cost by the actual production tonnes by machine, and comparing this with the total actual costs incurred by machine. UPM advised that the variance in the 2013 financial year for the whole of UPM (i.e. all paper machines operated by the company, not just the Chapelle Darblay newsprint machines) was approximately 10%.

We sought to test the reasonableness of the PCM costs to manufacture by gsm model, focussing on the month of November. UPM provided copies of:

- the PCM grade cost sheet by model for November 2013 for all newsprint gsms produced on the PM6 machine; and
- the November PCM ‘price list detail report’ (for both paper machines combined).

These form **Confidential Attachment COSTS 2.**

We observed that the price list detail report displayed the cost of one unit of each manufacturing cost item, using varying units depending on the nature of the cost

. [Cost details]

The grade cost sheet by gsm model included data such as:

- [REDACTED]
- [REDACTED]
- [REDACTED]

[Cost factors]

We observed how the grade cost sheet arrived at total costs per tonne by gsm model for each cost item, by applying the unit price list detail cost to the units needed to manufacture a tonne of that gsm of newsprint.

We queried with UPM how the data in the PCM has been developed. UPM explained that the machine production components such as efficiency and tonnes per hour produced have been established historically but amended over time to refine the PCM. The cost of raw material inputs such as RCP and chemicals are based on the previous period's actual cost incurred, while the cost of overheads that are at contract prices (e.g. electricity) are set at the contract price. Fixed costs such as direct labour are based on budgeted figures.

To demonstrate the accuracy of the PCM, UPM provided a copy of its 'STD () vs. ACT 2013 comparison' report, demonstrating the overall variance of UPM for all machines combined, as well as variances by machine. We observed from this that the variance between the PCM standard and actual incurred costs for 2013 for PM6 was approximately %.

This report forms **Confidential Attachment COSTS 3**.

We examined each grade cost sheet for each gsm to assess its reasonableness. We noted that the units needed of each cost element to produce one tonne of that gsm varied in accordance with our understanding of the production process and the likely differences in producing different gsms of newsprint. For example, the lower the gsm of newsprint, the more electricity and fixed costs needed to make one tonne of that gsm, while the RCP raw material costs per tonne across gsm models recorded in the PCM were the same across models (with some variations for rounding differences),

In light of the above, we consider it reasonable to establish gsm model-level manufacturing costs for the purposes of this report by applying the cost relativities between grades recorded in the PCM's standard costs to the actual PM6 aggregate costs incurred during the investigation period (by quarter). We requested that UPM perform these amendments to its CTMS, and the company supplied a revised version of its quarterly CTMS per tonne by gsm in line with this request.

The revision to UPM's CTMS to account for this gsm model-level split forms **Confidential Attachment COSTS 4**.

UPM directly based the revision on the investigation period quarterly 'S' income statement for the PM6 (i.e. the income statement incorporating all costs including the intra-group service charge). A copy of this income statement is included in Confidential Attachment EXP 13.

Using the total costs in this income statement, the following approach was taken by UPM.

All variable manufacturing ('material') costs were allocated evenly across gsms by quarter using the quarterly production volume of that gsm this is due to the fact that on a per tonne basis, these costs do not vary depending on the gsm.⁶

The quarterly cost pool of each sub-category of fixed costs and other costs was divided by the total quarterly hours needed to make the entire quarterly volume of the PM6 to arrive at a cost for each component per hour.

The total quarterly hours needed to make all production on the PM6 was determined by reference to the PCM's recorded hours required to make one tonne of each gsm and the quarterly actual production volume of each gsm (verification of this production volume is a Section **Error! Reference source not found.**).

The cost per hour calculated above was multiplied by the quarterly hours taken on the PM6 to produce the specific production volume of each individual gsm per quarter to arrive at a total cost per sub-category by gsm. This was then divided by the total production volume for the related gsm model to arrive at a cost per tonne for each cost component.

Delivery costs

⁶ This approach is taken in the PCM.

We observed that, in the re-calculation performed by UPM, the company had omitted delivery costs from the calculation. These delivery expenses in the 'S' version income statement, are the cost for delivery expenses incurred by UPM Sales OY in delivering the production of the cost centre. As such, these expenses relate to sales to all markets, and not just to Australia or domestically in France.

We considered it would be an error to include the delivery costs recorded in the 'S' version income statement without accounting for this difference in markets.

In the original CTMS submitted by UPM (Confidential Attachment COSTS 1), delivery expenses were calculated separately for Australian and domestic CTMS, accounting for the cost differences between the two. We verified these charges (see Section 5.5.2) and have re-included these costs in an amended final CTMS.

Amendment to service charge allocation

In our examination of the revised CTMS, we noted that the 'intra-group service charge' incurred by UPM has been grouped with UPM's fixed and other costs and split to model levels using the same methodology as all other fixed costs, with reference to the hours required to make the total production and the production volume of each gsm. The majority of this service charge (discussed in more detail at 5.5.3) in actuality reflects UPM's selling, general and administrative costs.

Due to the nature of these costs, we consider that these more accurately relate to the sale of the production of the PM6 machine rather than the manufacture itself, and it would be more reasonable to attribute these costs to each gsm model by reference to the sales volume of each model. We have performed these corrections in UPM's CTMS calculations.

Conclusion

We verified the methodology and accuracy of UPM's calculations, including the PCM tonnes per hour used to the data contained in the PCM. We are satisfied of the accuracy of the split performed by UPM in its revised manufacturing cost calculations.

In terms of reasonableness, we consider the approach taken by UPM in relation to its variable material costs evenly across gsm to be reasonable, in line with our understanding of the manufacturing process and the data recorded in the PCM. We also consider the approach to calculating model-level fixed costs to be reasonable, excluding the approach taken to the service charge, which we have amended above.

Following the amendment and the re-inclusion of delivery costs, we are satisfied with the accuracy and reasonableness of the split of the aggregate PM6 costs into CTMS by gsm.

5.4 Verification of production volumes

As discussed above, UPM arrived at unit (per tonne) CTMS in its revised gsm-level calculations using the quarterly production volume of that model on the PM6. Verification of these volumes is discussed below.

To demonstrate the accuracy of the production volumes by gsm by quarter used in its CTMS revision (and also originally used for the aggregate CTMS for the PM6), UPM provided a detailed daily production report generated from its [REDACTED] system, showing the daily production of each product (including non-like goods as well as like goods) for both Chapelle Darblay paper machines (this forms **Confidential Attachment COSTS 5**).

UPM manipulated this data into a summary report to show monthly production totals by machine for each product produced.

By summing the correct months, we were able to directly reconcile the monthly volumes in the [REDACTED] production report to the quarterly production volumes reported in the revised manufacturing costs calculations.

UPM explained that this production data is produced automatically at the mill, which has a fully-automated production volume recording system, including barcode tracking. This system includes provision for the recording of scrapped goods (i.e. sub-standard product) which is not recorded in the final production tonnage. We observed the operation of this system during our tour of UPM's production facilities.

UPM provided a copy of its mill production report (that feeds into the [REDACTED] system) for November 2013, which we observed reconciled directly to the [REDACTED] report discussed above. This forms **Confidential Attachment COSTS 6**.

5.5 Verification of CTMS to audited accounts completeness and relevance of data

We explained to UPM that we would seek to reconcile its revised (gsm-level) CTMS data to the company's audited financial statements to assess the completeness and relevance of the CTMS data.

5.5.1 Reconciliation to income statement

As discussed above, we observed how UPM arrived at revised unit model-level CTMS using the costs recorded in its 'S' version income statement by quarter of the investigation period. We observed that all costs recorded in the quarterly 'S' income statements were used in this unit calculation (i.e. no costs omitted).

We note that our understanding of each cost element in the 'S' income statement for the PM6 machine is that all costs are relevant to the manufacture and sale of newsprint from that machine, and should be included in the CTMS calculations.

As discussed in Section 4.5, the 'S' version income statement is the management account income statement used internally to determine the actual profitability of the specific profit centre (in this case, the PM6 machine). This income statement includes the final invoiced revenue received by the UPM Group from its customers (though not all of this goes to the mill) and all charges involved in the manufacture and sale of UPM's newsprint, including an intra-group 'service charge' and delivery costs incurred by UPM Sales OY in delivering the PM6 machine's production.

Consequently, we consider the 'S' version income statement to be the correct version of the income statement that should be used by UPM in determining its fully-absorbed

CTMS for newsprint, as it includes all relevant costs whereas the 'non-S' version does not.

However, as outlined in Section 4.5, the 'S' version of UPM's income statements are not those that are audited, rather the 'non-S' version is the audited statement.

We compared the costs recorded in UPM's 'S' and 'non-S' version income statement (in Confidential Attachment EXP 13) and observed that all costs recorded in both versions were the same across both versions, excluding:

- the inclusion of delivery charges in the 'S' version; and
- the inclusion of the intra group service charge in the 'S' version.

These all have the impact of increasing UPM's costs in the 'S' version, used as the basis for our CTMS. We have separately verified the delivery and service charge costs, discussed below in Section 5.6.

We are therefore satisfied that the 'S' version income statement reconciles with the 'non-S' version income statement.

In the same manner as sales revenue, we were then able to trace the PM6 'non-S' version income statement to the UPM audited accounts IFRS version (Confidential Attachment EXP 15), via the report showing individual income statements for all UPM profit centres for the 2013 financial year (Confidential Attachment EXP 14) at the gross and net profit levels.

5.5.2 Delivery charges

To demonstrate the total of delivery charges in the 'S' version income statement, as well as the break-down of delivery charges by market, UPM provided a report from the [REDACTED] system showing all delivery charges related to sales made of PM6 machine production during the investigation period. This forms **Confidential Attachment COSTS 7**.

We were able to directly reconcile the total delivery cost recorded in this report to the total delivery costs recorded in the 'S' version income statement.

The [REDACTED] report further broke down the delivery costs into destination countries. We observed that the amount for French and Australian delivery costs (in Euros/T) recorded directly reconciled to the domestic and Australian delivery expenses recorded in UPM's original CTMS (Confidential Attachment COSTS 1). As outlined in Section 5.3, it was these French and Australian amounts that we used in the amended gsm-level CTMS.

5.5.3 Intra-group service charges

As outlined above, UPM's CTMS includes the cost of an intra-group 'service charge'.

UPM explained that this charge was essentially reflective of all of the selling, general and administrative costs associated with the running of the Chapelle Darblay mill and the sale of the mill's production.

UPM explained that the selling, general and administration charges that are incurred at the mill are 'charged back' (invoiced) to UPM-Kymmene on a monthly basis, along with all other Paper ENA business units' similar expenses (including UPM Sales OY). These expenses are then pooled by UPM-Kymmene and re-allocated and charged back to manufacturing business units. The allocation to manufacturing business units is based on various allocations, such as:

- finance processing charges on number of transactions relating to that business unit; and
- information technology costs on number of full-time equivalent staff.

Within the business units, these costs are then allocated to each paper machine based on production tonnes of that machine.

UPM explained that this process ensures that all selling, general and administrative costs incurred by the Paper ENA division in the manufacture and sale of various paper products are allocated to each paper machine in the 'S' version accounts, and profitability can be assessed by machine. This allows functions undertaken by other UPM Group entities that relate to the sale of these paper products to be included in the assessment of the profitability of each machine.

UPM explained that the terms of this arrangement are covered by *Global Functions and Management Services Agreements* between UPM-Kymmene and the business units. UPM provided a copy of this agreement between itself and UPM-Kymmene (**Confidential Attachment COSTS 8**).

We observed that this agreement established that:

- 'services' are to be provided by UPM-Kymmene to UPM for a service fee;
- UPM-Kymmene will be charged the cost of 'global functions and management of services of group' companies, which it aggregated and charged back as the services fee;
- Payment of the service fee will be invoiced to UPM.

UPM also provided various appendices to this agreement showing the value of the service charge for 2013, details of what it related to, and the method of allocating these charges to UPM. These appendices are included in Confidential Attachment COSTS 8.

We observed that these appendices showed the service fee charged back to UPM included:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

- [REDACTED]
- [REDACTED] [Charge back items]

We summed the total of the service fee figures for each category to arrive at the total cost of the service fee to UPM for 2013. We then undertook our own allocation of this total to paper machines by production volume, by applying the production volume ratio seen in the production volume report in Confidential Attachment COSTS 5. We observed that the figure for the 2013 service fee reported in the UPM 2013 'S' version income statement reconciled to our calculations.

We asked UPM to demonstrate its charging of the costs incurred at the mill back to UPM-Kymmene. UPM provided reports showing the charge back amounts to UPM-Kymmene for 2013 (**Confidential Attachment COSTS 9**). These charges were in categories such as [REDACTED]

5.5.4 'rcpfr' profit centre

As discussed at Section 4.5.4, in our verification of UPM's data to the company's audited accounts, we encountered the 'rcpfr' profit centre, which relates to an RCP warehouse for the Chapelle Darblay mill to house excess RCP. UPM explained that the costs allocated to this profit centre relate to the leasing and running of the warehouse.

As these costs relate to the manufacture of newsprint at the Chapelle Darblay mill, we considered that these costs should reasonably be included in UPM's CTMS to ensure all relevant costs are accounted for. UPM acknowledged that this inclusion was necessary, however the company explained that these costs were already included in our CTMS calculations via a direct allocation of the warehouse's rent to the PM6 and PM3 based on production volume, and the inclusion of other warehouse costs in the intra-group service fee charged to UPM (discussed above).

UPM provided monthly income statements for the investigation period for the rcpfr profit centre (**Confidential Attachment COSTS 10**).

5.5.5 Conclusion

Following the above reconciliation, we are satisfied that the CTMS calculations submitted by UPM represent reasonably complete and relevant accounts of the company's fully absorbed CTMS of newsprint during the investigation period.

5.6 Verification CTMS to source documents

Following the above reconciliation to UPM's audited statements, we sought to verify the company's CTM to source documents. This verification is discussed below.

5.6.1 Variable/material costs

We selected the following sub-categories of UPM's variable (material) costs for verification to source documents:

- RCP;
- chemicals; and
- Energy.

Collectively, these sub-categories accounted for over [REDACTED] % of the total value of the variable/materials cost category.

RCP

UPM explained that RCP is allocated to each paper machine based on the actual consumption of RCP at the de-inking lines (DIP 1, DIP2 and DIP3). In line with their established use, UPM explained that [REDACTED]

[REDACTED] [RCP percentage cost allocations]

To demonstrate this, UPM provided a *DIP Yield* report for the Chapelle Darblay plant for the 2013 financial year.

This report showed:

- the total allocated cost of RCP to each paper machine; and
- the total cost of RCP consumed in each de-inking plant

on a monthly basis.

We were able to reconcile the total allocated RCP cost for the PM6 in this report to the 2013 financial year 'S' version income statement in Confidential Attachment EXP 13 (the investigation period version of which forms the basis of the revised CTMS).

We observed how this total PM6 figure was derived using the above percentage allocations of the total cost of RCP consumed in the DIPs.

We then sought to verify the cost of RCP consumed in DIP3 to source documents, and selected the month of November to focus our verification on.

UPM provided a report showing the cost and volume of RCP consumed in DIP3, by particular RCP type, for November. UPM then provided a *Material Document List* report for RCP, showing the opening inventory value of each type of RCP, purchases, the value of stock transferred into production and the closing inventory value.

We selected one type of RCP [REDACTED] and traced a transaction where a value of this RCP was transferred into consumption in November, which reconciled to the DIP3 cost and volume consumption report.

We selected two major purchases from the *Material Document List*, and UPM provided purchase invoices and proof of payment for each. These reconciled to the *Material Document List* and proof of payment showed that UPM paid the invoiced amount to its supplier.

Relevant documents for the verification of RCP form **Confidential Attachment COSTS 11**.

Chemicals

UPM explained that, like in the case of RCP, actual chemical consumption for some chemical expenses is recorded by de-inking plant and then allocated to each paper machine.

UPM further explained that some chemical costs are allocated directly to each paper machine when they are directly consumed on that machine, while other chemical costs for chemicals used throughout the mill are recorded in common cost codes.

UPM explained that, in determining the cost of chemicals by paper machine:

- [REDACTED]
 - [REDACTED]
 - [REDACTED]
- [Chemical cost allocation principles]

UPM explained that it does not follow the more complicated allocation for the de-inking plants seen with RCP (above) in the case of chemicals, as this cost is significantly lower and less variable than RCP.

We considered this allocation method to be reasonable.

To demonstrate the costs recorded in the income statement for the PM6, UPM provided a Jun 13 quarter actual cost of chemical consumed report showing costs recorded by de-inking plant, machine and common chemical costs. We were able to apply the above-described allocation methodology to this report and reconciled the PM6 total chemical costs calculated to UPM's income statement (in Confidential Attachment EXP 13).

UPM the provided a report showing the cost and volume of chemicals consumed in all relevant cost centres (de-inking plants, paper machines and common cost centres), the total of which reconciled to the Jun 13 cost of chemical report. This report listed the type of chemicals consumed, of which we chose [REDACTED] to verify to source documents.

UPM provided a *Material Document List* for this chemical (in the same format as that provided for RCP see above). We reconciled this report, observing transfers of costs of the chemical into production. We selected two purchases of the chemical from this listing, and received invoices and evidence of payment for each.

Relevant documents for the verification of chemicals form **Confidential Attachment COSTS 12**.

Energy

UPM explained that its total energy costs are comprised of:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[Energy types]

As outlined at Section 3.2.2, UPM also generates electricity from its boiler, which it sells to the electricity grid for revenue. This sale of electricity offsets UPM's total energy costs.

UPM provided a spreadsheet showing the consumption and incurred cost of each type of energy (and the revenue for energy sold back to the grid) by month for 2013 for the entire mill (not split by machine).

We summed the total costs of all energy types in the consumption costs spreadsheet and offset this cost by the electricity revenue earned and recorded in that report for October, November and December.

UPM directed us to the monthly 'non-S' income statements for October, November and December 2013 (included in Confidential Attachment EXP 13). We were able to reconcile the summed (and offset) total energy costs to UPM's whole of mill monthly income statements.

In terms of allocation energy of costs to paper machine, UPM explained that it allocates energy costs with reference to

[REDACTED]

[Allocation principles]

We observed how this split worked to allocate the whole mill energy costs to the paper machines in the monthly income statements. We considered this approach to be reasonable.

We then selected following items for November 2013 shown in the monthly energy costs spreadsheet for verification to invoices:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[Energy cost types]

UPM provided invoices that verified the reported costs.

Relevant documents for the verification of energy form **Confidential Attachment COSTS 13**.

5.6.2 Fixed costs

We selected the following sub-categories of UPM's fixed costs for verification to source documents:

- direct labour; and
- maintenance.

Collectively, these sub-categories accounted for over [REDACTED] % of the total value of the variable/materials cost category.

Direct labour

UPM explained that its 'direct labour' total is comprised of:

- wages (production)
- wages (maintenance); and
- salaries.

These are allocated to either the PM6 or PM3 based on historical understandings of where this labour is commonly consumed. These allocations take into account such matters as [REDACTED]

[Allocation principles] We considered UPM's method of allocating direct labour categories to be reasonable.

UPM provided a reconciliation package with reports showing the whole mill's wages costs by category for the December 13 quarter, as well as the same period reports by paper machine. We observed that the PM6 report reconciled to the PM6 income statement for that quarter (in Confidential Attachment EXP 13), and the application of the allocations described by UPM.

We selected wages (production) for the whole mill for further verification, and UPM provided a direct labour cost report showing individual direct labour costs (e.g. wages for hours worked, overtime, insurance, etc.). This reconciled to the whole mill wage cost report.

Documents collected to verify direct labour form **Confidential Attachment COSTS 14**.

Maintenance

UPM explained that:

- [REDACTED]
- [REDACTED]

[REDACTED]

[REDACTED]

[Maintenance cost allocation principles] We considered this to be reasonable.

UPM provided a whole mill maintenance cost report for the June 2013 quarter, showing maintenance costs incurred by cost centre. UPM also provided a version of this report for the PM6. We were able to use the abovementioned allocation method to reconcile the total maintenance costs recorded for the PM6 to the whole mill costs. This also reconciled to the PM6 income statement (in Confidential Attachment EXP 13).

We traced the PM6 maintenance costs total to a detailed PM6 maintenance costs report showing the individual costs incurred. We selected one example of an incurred cost ([REDACTED]) and traced this to the relevant invoice for this cost.

Documents related to the verification of maintenance costs form **Confidential Attachment COSTS 15**.

5.6.3 Other costs

Depreciation

We sought to verify and assess the reasonableness of the cost of depreciation recorded in the revised CTMS workings.

UPM explained that it allocates the total depreciation of the Chapelle Darblay mill to each paper machine based on a [REDACTED] split [REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]. [Depreciation allocation principles]

From our understanding of the operations of the Chapelle Darblay mill, we considered this split to be reasonable.

We observed the total mill depreciation figure recorded in the monthly November December monthly income statements (part of Confidential attachment EXP 13), and applied the above allocation method to this figure. This reconciled with the monthly income statement figures reported in those income statements for PM3 and PM6.

We verified the total mill depreciation figure for November 2013 in the monthly income statement to the general ledger for the whole mill, and traced the calculation of this total monthly figure for November to UPM's assets register.

Within the asset register, we requested UPM demonstrate how the cost of recent upgrades to the Chapelle Darblay mill were recorded (to ensure they were included in the depreciation figure). UPM demonstrated this, highlighting where the cost to upgrade the mill was included in the register.

Documents collected to verify depreciation form **Confidential Attachment COSTS 16**.

5.6.4 Conclusion

Following the above verification, we are satisfied that the CTMS submitted by UPM (following revisions made by the Commission as discussed above) are a reasonably accurate record of those incurred by UPM in its manufacture of newsprint, and the sale of newsprint by the UPM Group.

5.7 Costs to make and sell preliminary assessment

We have verified UPM's CTMS for newsprint to source documents and to audited financial statements, as well as assessed the allocation methods and calculations for their reasonableness.

As discussed throughout this Chapter, amendments have been made to the CTMS submitted, as deemed necessary by the verification team. The amended CTMS forms **Confidential Appendix 2**.

As a result of the verification and amendment process, we are satisfied that UPM's CTMS as amended is reasonably accurate, relevant and complete.

6 DOMESTIC SALES

6.1 General

6.1.1 Domestic sales data provided

In its response to the Exporter Questionnaire, UPM provided a detailed domestic sales spreadsheet (the *Domestic Sales* listing), including invoice detail of all sales to French customers.

The sales listings included various details including:

- customer name;
- UPM's product code;
- invoice number and date;
- invoice price in EUR;
- quantity (in tonnes);
- discounts and rebates;
- delivery terms; and
- payment terms.

The *Domestic Sales* listing forms **Confidential Attachment DOM 1**.

6.1.2 Customer details

UPM, via UPM Sales OY sells various models of newsprint on the domestic French market.

During the verification, UPM explained that these sales are made to several different types of customers, namely:

- newspaper publishers;
- magazine printers;
- government printers;
- paper brokers;
- print management companies (contract printers); and
- general printers.

During the verification, we were provided with a customer name listing that reported which of the above classifications each customer belonged to (**Confidential attachment DOM 2**).

We observed from provided sales data (discussed below) that most of the newsprint sold by UPM in the domestic market during the investigation period was to newspaper publishers. Sales to print management companies, brokers (generally purchasers of excess stock for re-sale), magazine publishers, general printers and government printers accounted for approximately [REDACTED] % of volume and less than [REDACTED] % of value of UPM's sales in the investigation period.

6.2 Domestic sales process and role of UPM Group entities

6.2.1 Sales process

UPM advised its domestic sales process is typically as follows:

- UPM sales managers contact and visit customers and negotiate contracts for sale (generally 6-monthly in duration) that establish price, payment and delivery terms with customers;
- customers place orders with UPM customer service staff generally on a weekly basis (for newspaper publishers);
- customer service staff enter the order in UPM's [REDACTED] module;
- the [REDACTED] system records the order as a sale by UPM Sales OY;
- the order is sent to the mill in the [REDACTED] system. The mill will confirm the order in [REDACTED];
- UPM either produces or selects the order from stock;
- an invoice from UPM Sales OY is automatically generated after the goods leave the mill based on the lead time to the delivery date;
- the customer makes payment to UPM Sales OY via electronic transfer of funds.

6.2.2 Role of UPM Group entities in the domestic sale process

Both UPM and UPM Sales OY are involved in the domestic sales transaction, the roles of each are outlined below.

In addition to describing the roles of each party, UPM provided a diagram of the *UPM Sales OY operating mode Sale of paper products in Europe*, which the company explained outlines sales model for all UPM Group paper products in Europe (including newsprint). This forms **Confidential Attachment DOM 3**.

UPM

In the same manner as for export sales, UPM manufactures newsprint sold by UPM Sales OY at its Chapelle Darblay mill. UPM packages newsprint for final sale at the mill, and sends the goods on trucks to domestic French customers.

As with export sales, UPM transfers ownership of its newsprint (once packaged) to UPM Sales OY [REDACTED]. [Price basis]

As discussed at Section 4.2.2, the arrangement between UPM and UPM Sales OY is established in a distribution agreement (Confidential Attachment EXP 4).

UPM Sales OY

As with export sales, UPM Sales OY purchases newsprint sold domestically from UPM. UPM Sales OY then on-sells this newsprint to unrelated French customers.

UPM Sales OY issues invoices to French customers, and accepts direct payment for these invoices.

6.3 Delivery terms and facilitation

UPM advised that, during the investigation period, newsprint sold in France was supplied through two sales 'channels':

- mill to customer product is delivered to the customer's premises; or
- mill through 'inland stock'.

UPM advised that sales through 'inland stock' is a service provided by UPM to large customers, where the product is stored in UPM's warehouse. The customers then call stock up from the warehouse as needed (with a short lead time), in which case the delivery from the UPM warehouse is arranged and paid for by the customer.

UPM refers to its delivery terms as either

[REDACTED] [Confidential: trading terms]. We observed these classifications in the *Domestic Sales* listing.

Domestic delivery in the case of mill to customer sales is paid for by UPM Sales OY.

6.4 Pricing (including discounts and rebates)

6.4.1 Pricing

There are two 'prices' in the domestic sales transaction:

1. between UPM and UPM Sales OY; and
2. between UPM Sales OY and the French customer.

UPM and UPM Sales OY

The [REDACTED] price between UPM and UPM Sales OY ([REDACTED]) is determined in the same way as for export sales to Australia. See Section 4.4.2.

UPM Sales OY and domestic customers

Prices to French customers are set in EUR.

UPM indicated that its prices vary according to the outcome of negotiations with individual customers.

As with export sales, domestic pricing is established within the pricing guidelines set by the pricing matrix in the [REDACTED] system, which are set by reference to market intelligence. See Section 4.4 for discussion of the pricing matrix. As outlined above, prices are established on a [REDACTED] basis in customer contracts.

In establishing these contracted prices, customer volume, relationships and location impact the final contracted price. UPM explained that, in general, prices are lower for customers that purchase higher volumes. In terms of location, the price charged may be affected by the location of the customer (e.g. a customer in [REDACTED] may pay a higher price or may pay a delivery surcharge that increases their final negotiated price).

UPM maintains price lists in [REDACTED] that record these contracted prices. UPM provided printouts of the pricelists for its three largest (by volume) French customers of newsprint. These form **confidential attachment DOM 4**.

We saw from these price lists that, as is established in the price matrix that a base price for each product type exists, with pricing variations for:

- gsm; and
- brightness.

We also observed from the domestic prices lists that there is a slight pricing variation between 'heatset' and 'coldset' web offset newsprint (of less than [REDACTED]%, in line with the pricing difference in the price matrix).

See Section 4.4 for further discussion of the pricing matrix and pricing observations.

6.4.2 Discounts and rebates

UPM advised that French customers may have terms that provide for discounts for short credit terms or prompt payment. Customers may also receive rebates when certain volumes have been achieved.

These discounts and rebates were recorded in the *Domestic Sales* listing collectively (i.e. one figure for both discounts and rebates rather than being identified separately).

In some cases discounts and rebates were recorded as their own line listing in the *Domestic Sales* spreadsheet, as opposed to against the relevant invoice they related to. UPM explained these were instances where corrections/amendments had been made to the discount or rebate and should be attributable to the invoice line they related to.

We were able to readily attribute these rebates and discounts to the invoice they related to (ensuring that, in our normal value calculations the rebates and discounts attributable to each invoice incurred in a specific quarter offset the correct invoice).

6.5 Sales to brokers

We queried with UPM whether the level of trade or customer type of its customers on the domestic market impacted the price charged to each.

We conducted pricing analysis of UPM's *Domestic Sales* listing and found no discernible pricing pattern amongst domestic customer types, with the exception of brokers that consistently incurred a lower price than other customer types. We queried this with UPM, and the company advised that brokers generally acquire excess or slightly inferior (due to damage or poor winding onto the reel for example) newsprint at low prices for re-sale in reels or for cutting into sheets of specified sizes. As brokers purchase inferior newsprint, this is reflected in lower prices.

We observed that brokers represent less than [REDACTED]% of the value of UPM's domestic sales.

UPM agreed that sales to brokers are not representative of standard domestic sales and are not comparable to sales made to Australia of newsprint, which is always of prime quality product. UPM agreed that these sales should reasonably be excluded from the

calculation of normal values for the purposes of comparison with Australian export prices. Sales to brokers have been excluded from our normal value analysis as a result.

6.6 Verification of sales to audited financial statements

Refer to Section 4.5 for verification of UPM's *Domestic Sales* listing through to the company's audited financial statements.

Following this verification, we are satisfied that the sales data included in UPM's *Domestic Sales* listing response to the exporter questionnaire in relation to the following models of newsprint produced on the PM6 machine is a complete record of those sales, contains all relevant sales of those models and does not contain any irrelevant sales of those models:

- [REDACTED]
- [REDACTED]
- [REDACTED]

6.7 Verification of domestic sales to source documents

Prior to the visit, 12 domestic sales transactions were selected for detailed verification from the detailed *Domestic Sales* listing spreadsheet that UPM submitted as part of its response to the exporter questionnaire.

UPM was asked to prepare evidence to support the spreadsheet data for the selected domestic transactions. At the visit, UPM supplied 12 sets of documents, each containing the following:

- purchase order confirmation;
- invoice;
- proof of payment of invoice; and
- inland transport documents.

These documents form **Confidential Attachment DOM 5**.

6.7.1 Domestic sales volume

We checked the volume of newsprint sold to domestic customers as listed in the spreadsheet and found that it matched the respective amounts in the source documents.

6.7.2 Sales value

We checked the total net invoice value and price per tonne of newsprint sold to domestic customers as listed in the spreadsheet and found that it matched the respective amounts in the source documents.

6.7.3 Delivery terms and costs

We checked the delivery terms of sales to domestic customers as listed in the spreadsheet and found that they matched the respective amounts in the source documents.

We found that for sales on an [REDACTED] basis, UPM recorded inland transport costs in the *Domestic Sales* listing. [REDACTED]

[REDACTED]. [Transport cost recording details]

UPM provided copies of several invoices for [REDACTED] sales listing in the *Domestic Sales* spreadsheet that demonstrated that

[REDACTED]. [Delivery details] These form **Confidential Attachment DOM 6**.

UPM agreed that in cases listed with

[REDACTED]. [Delivery cost modification] We performed this modification in the *Domestic Sales* listing.

For [REDACTED] [Confidential: trading terms] sales, we were unable to match delivery costs with any documents that were supplied by UPM. UPM indicated that this was due to the fact that standard delivery costs from [REDACTED], rather than actual costs, were used in the spreadsheet.

We queried with UPM if there was a way to record the actual incurred transport costs by invoice line in the *Domestic Sales* listing. UPM explained that this would require manually identifying the actual invoiced costs and attributing it to the correct line in the spreadsheet (approximately [REDACTED] transactions).

Instead, we considered that it was reasonable to calculate an average EUR/Tonne French inland transport cost using the total inland transport costs and attribute this to each applicable [REDACTED] [Confidential: trading terms] invoice line in the *Domestic Sales* listing. UPM provided a printout of French inland transport costs and tonnes sold from the [REDACTED] system which we used to perform this calculation in the sales listing (this forms **Confidential Attachment DOM 7**).

6.7.4 Payment terms and proof of payment

We checked the credit and payment terms of newsprint sold to domestic customers as listed in the *Domestic Sales* spreadsheet and found that they matched the respective terms in the source documents.

We confirmed that the invoice date matched the invoice date listed in the *Domestic Sales* listing.

We confirmed that customers met the payment terms by paying invoices in full by the due date.

6.7.5 Insurance

UPM indicated in the *Domestic Sales* listing spreadsheet that it incurs a small amount of cost for domestic sales of newsprint for transport insurance and credit insurance. The cost of these two types of insurance added together ranged between

[REDACTED]

UPM provided a report from its [REDACTED] system and a report from its [REDACTED] and we found that the cost of transport insurance matched. This report forms **Confidential Attachment DOM 8**.

6.7.1 Rebates and discounts

In UPM's *Domestic Sales* listing, the company indicated that it provides rebates and discounts to customers. UPM records the rebate and discount levels in its [REDACTED] system.

We found that in cases where a customer's purchases reach a certain volume of newsprint, UPM applies a pre-negotiated rebate to previous purchases and subsequent purchases. Credit notes are provided and can be attributed directly to specific sales when rebates are provided.

We were provided a report for a customer from the [REDACTED] system entitled *Change documents for conditions*. This report indicated how volume rebates applicable for respective customers are recorded before being subsequently applied to sales. The report also indicated how UPM may address errors whereby the customer's rebates rate may be mistakenly entered. We checked this report against a relevant sale and found that the correction of an incorrect rebate rate was done appropriately and matched the respective details in UPM's *Domestic Sales* listing.

We found that in some cases, UPM offers customers a discount for advance payment before delivery of the goods. We checked the process of how this is recorded by examining documents related to such a case. We were also provided with a *Document Flow Report* from the [REDACTED] system that listed all the respective documents associated with the sale

[REDACTED]

[Advance payment discount process]

We checked the amount of rebates as described in the spreadsheet and found they matched the conditions as recorded by UPM and consider that the data in the amended domestic sales summary spreadsheet is reasonably accurate.

6.7.1 Credit costs

UPM did not include a calculation for credit costs in its *Domestic Sales* listing.

As outlined in Section above UPM's cost of credit is determined by reference to the Euribor interest rates plus a margin.

We have calculated the cost of credit with reference to the Euribor rates plus margin, and the number of credit days applicable to each sale as recorded in the *Domestic Sales* listing.

6.7.2 Conclusion

All the documentation provided by UPM in respect of domestic sales has been examined and checked against the information in the domestic sales summary spreadsheet.

On the basis of downwards verification to source documents, we consider that the data in the amended domestic sales summary spreadsheet is reasonably accurate.

6.8 Arm's length

UPM to UPM Sales OY

In respect of UPM's sales transactions to UPM Sales OY during the investigation period, the price between the parties is a '██████████ price' that is influenced by a commercial or other relationship between the buyer and the seller. We therefore consider this transaction to not be arm's length.

UPM Sales OY to French domestic customers

In respect of UPM Sales OY's sales transactions to domestic customers 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; or
- the buyer, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider that the transactions from UPM Sales OY to domestic customers during the investigation period were arm's length transactions.

6.9 Ordinary course of trade

We sought to identify whether sufficient domestic sales of like goods were made in the ordinary course of trade (OCOT) for possible use in normal values under s.269TAC(1) of the Act.

Noting that the *Domestic Sales* listing only includes sales of exact model matches to those sold to Australia during the investigation period, we began with assessing these sales as we considered these would be the most reasonable for s.269TAC(1) normal value purposes if sufficient sales in OCOT of these models had been made.

6.9.1 The ordinary course of trade

In order to test the profitability of UPM's domestic sales in the *Domestic Sales* listing (made by UPM Sales OY, which we have 'collapsed' with UPM for dumping calculation purposes see Section 4.7), we compared:

- the unit (per tonne) net sales price of each individual domestic sale of newsprint by model (factoring product type () and gsm); with
- the corresponding quarterly weighted average unit CTMS for product by gsm (we did not arrive at separate CTMS based on product type see Section 5.3).

For those transactions calculated as being sold at a loss, we tested whether the sales were recoverable, by comparing the unit net sales price with the investigation period weighted average unit CTMS for the relevant gsm.

The below table shows the results of this assessment.

Model	Volume not recoverable (T)	Total Domestic Sales (T)	% not recoverable

Table 4: Volume of sales in ordinary course of trade

We found that non-recoverable sales represented greater than 20% of the volume of the . As such, the non-recoverable sales have not been used in calculating normal values for that model.

For the remaining models, recoverable sales were less than 20% of the volume all sales of those models. All sales of these models are considered as being made in the ordinary course of trade.

6.9.2 Sufficiency of sales

We then sought to determine whether there were sufficient domestic sales in the ordinary course of trade for all exported models in the investigation period in order to calculate normal values under s.269TAC(1).

The below tables below show this analysis.

Model	Export quantity (MT)	Domestic sales in OCOT (MT)	% Domestic OCOT/ Export	Sufficient sales in OCOT?
				Yes
				Yes
				Yes

Table 5: Sufficiency of sales in the ordinary course of trade

We found that there were sufficient domestic sales of all three models identical to those exported to Australia during the investigation period.

Profitability, ordinary course of trade and sufficiency of sales assessments are at **Confidential Appendix 3**.

7 THIRD COUNTRY SALES

In its response to the Exporter Questionnaire, UPM provided a summary of its sales to third countries of newsprint of the same models exported to Australia (see Table 2) manufactured on the PM6 machine.

As previously discussed, we consider that this did not provide a full data set relating to UPM's sales of like goods to third countries, as sales were made of:

- other models of newsprint manufactured on the PM6 machine; and'
- newsprint manufactured on the PM3 machine.

As discussed at Section 4.5, as part of our verification of sales data to UPM's audited financial accounts, we collected a complete sales listing of all newsprint (and other goods outside the goods description) sold by the UPM Group and manufactured by UPM at the Chapelle Darblay mill (the [REDACTED] sales listing, Confidential Attachment EXP 12) This includes line-by-line invoice detail of sales to third countries.

In any case, as we considered that we were in possession of enough verified information from the submission and our visit to calculate normal values for newsprint using domestic sales under s. 269TAC(1), we did not undertake detailed verification of the third country data.

8 NORMAL VALUE

As discussed in Section 6.9, we found sufficient volumes of domestic sales of newsprint by UPM Sales OY (which we consider should be 'collapsed' with UPM and UPM AP to be considered collectively as 'the exporter' see Section 4.7) that were arms' length transactions and at prices that were in ordinary course of trade for an exact model match for all three models exported to Australia during the investigation period.

Based on the information provided by UPM and the verification conducted on site we are satisfied that prices paid in respect of these domestic sales are suitable for assessing normal values under s. 269TAC(1) for all export sales of newsprint to Australia during the investigation period, as adjusted in accordance with s. 269TAC(8).

Using the data verified we consider adjustments are warranted for the items discussed in Chapter 9 of this report.

We calculated quarterly weighted average normal values separately by model. These were calculated on an FOB basis for comparability with FOB-level export sales.

Detailed normal value calculations, and summary normal values, are contained in **Confidential Appendix 4**.

9 ADJUSTMENTS

9.1 Adjustments made

To ensure that the normal value was comparable to the Australian export price, the following adjustments were made.

This arrived at normal values at the FOB level of trade, including export commission and export credit costs.

9.1.1 Credit terms

We consider:

- a downward adjustment for domestic credit terms; and
- an upwards adjustment for export credit terms

are required in the normal value calculation to ensure fair comparison between normal value and export price.

As discussed in sections 4.6.1 and 6.7.1, we have calculated the cost of credit for domestic and export sales with reference to actual credit terms and UPM's cost of credit rate.

We have conducted a downwards adjustment to normal values by removing the cost of domestic credit, and an upwards adjustment to normal values to account for the cost of export credit (calculated as a quarterly weighted average cost).

The calculation of the domestic credit downwards adjustment is in Confidential Appendix 4 (normal value), while the calculation of quarterly weighted average export credit is contained in Confidential Appendix 1 (export price).

9.1.2 Inland transport and insurance

We consider that the following inland freight adjustments to normal value are warranted:

- an upwards adjustment to include the cost of inland freight incurred in the exportation of goods to Australia; and
- a downwards adjustment to deduct inland freight and insurance incurred by UPM on its domestic sales (for [REDACTED] sales) [Confidential: trading terms].

Domestic inland transport

As discussed above, we were able to arrive at the cost of inland transport and insurance for domestic [REDACTED] [Confidential: trading terms] sales by reference to the total inland transport costs incurred during the investigation period. [REDACTED] [Confidential: trading terms] sales did not incur inland transport).

We have deducted this domestic inland transport from [REDACTED] [Confidential: trading terms] sales (downwards adjustment to normal values) to arrive at an ex-mill price for all sales prior to including export inland transport (see below).

Export inland transport

As discussed at Section 4.6.7, we were able to verify the cost of inland transport incurred in the transportation of newsprint from the Chapelle Darblay mill to the French port for exportation. We have calculated a quarterly weighted average export inland transport adjustment using this verified data and included this cost as an upwards adjustment to normal values

The weighted average export inland transport calculations are attached with the Export Price calculations in Confidential Appendix 1.

9.1.3 Terminal handling and other export port costs

We consider an upwards adjustment to normal value is warranted to account for the cost of export handling charges and port fees incurred in the export of newsprint to Australia.

As discussed at Section 4.6.9, we were able to verify the cost of these export charges contained in the *Australian Sales* listing to source documents. We have calculated a quarterly weighted average export charges adjustment using this verified data and included this cost as an upwards adjustment to normal values.

The weighted average export charges calculations are attached with the Export Price calculations in Confidential Appendix 1.

9.1.4 Commission

We consider an upwards adjustment to normal value is warranted to account for the cost of commission incurred in the export of newsprint to Australia (paid to UPM Australia).

As discussed at Section 4.6.10, we were able to verify the cost of commission contained in the *Australian Sales* listing to source documents. We have calculated a quarterly weighted average commission adjustment using this verified data and included this cost as an upwards adjustment to normal values.

The weighted average commission calculations are attached with the Export Price calculations in Confidential Appendix 1.

9.1.5 Timing adjustment

In one case, due to no domestic sales in one quarter of one exported model, we did not possess an exact match normal value for the exported Australian model in that quarter.

To allow for a quarterly normal value for this specific export model to be established, we considered it reasonable to make an adjustment to the comparable normal value of the same model in the previous quarter (in which a normal value exists) based on the cost difference between these months, adjusted by the gross margin of the PM6 machine derived from its income statement (investigation period total – in Confidential Attachment EXP 13)

These calculations are included in Appendix 4 (normal value).

9.2 Adjustments Conclusion

We are satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with s. 269TAC(8) of the Act, and we consider these adjustments are necessary to ensure a fair comparison of normal values and export prices.

Credit terms	Deduct the cost of domestic credit. Add the cost of export credit.
Inland transport	Deduct the cost of domestic inland transport and insurance where applicable (████ [Confidential: trading terms] sales). Add the cost of export inland transport.
Terminal handling and other export port costs	Add the actual cost of export port charges.
Commission	Add the cost of export commission.
Timing adjustment	Amend the normal value for one model in a quarter where no domestic sales were made of that model by basing this normal value on the previous quarter and adjusting for differences in costs plus the gross margin.

10 DUMPING MARGIN

We compared the quarterly weighted average export prices (at FOB terms) over the whole of the investigation period with the quarterly weighted average corresponding FOB normal values calculated based on domestic sales made in the ordinary course of trade in line with s.269TAC(1) over the whole of that period, in accordance with s. 269TACB(2)(a).

The weighted average product dumping margin for newsprint export to Australia by UPM is **5.1%**.

Details of the dumping margin calculations are at **Confidential Appendix 5**.

11 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Export price calculations
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Ordinary course of trade assessment
Confidential Appendix 4	Normal value calculations
Confidential Appendix 5	Dumping calculations
Confidential Attachment GEN 1	UPM wood products catalogue
Confidential Attachment GEN 2	Listing of products supplied by UPM Sales OY
Confidential Attachment GEN 3	Diagrams demonstrating the UPM Group's accounting systems
Confidential Attachment GEN 4	Presentation on the Chapelle Darblay
Confidential Attachment GEN 5	Coloured newsprint catalogue
Confidential Attachment GEN 6	Chapelle Darblay full product listing
Confidential Attachment EXP 1	<i>Australian Sales</i> listing
Confidential Attachment EXP 2	■■■■ supply agreement
Confidential Attachment EXP 3	Diagram - the <i>UPM Sales OY operating mode Sale of paper products to customers in Asia</i>
Confidential Attachment EXP 4	UPM and UPM Sales OY agreement
Confidential Attachment EXP 5	UPM Sales OY and UPM AP agreement
Confidential Attachment EXP 6	UPM AP invoice standard terms
Confidential Attachment EXP 7	UPM AP and UPM Australia agreement
Confidential Attachment EXP 8	■■■■■■■■ product pricing matrix
Confidential Attachment EXP 9	UPM Sales OY commission explanation slide
Confidential Attachment EXP 10	UPM Sales OY commission ■■■■ explanation
Confidential Attachment EXP 11	Chapelle Darblay mill detailed sales listing

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Confidential Attachment EXP 12	PM6 machine income statements
Confidential Attachment EXP 13	UPM profit centre income statement report
Confidential Attachment EXP 14	UPM 2013 Audited financial report income statement (IFRS)
Confidential Attachment EXP 15	UPM 2013 Audited financial report income statement (French GAAP)
Confidential Attachment EXP 16	Export sales source documents
Confidential Attachment EXP 17	Forward cover appendix
Confidential Attachment EXP 18	Forward cover source documents
Confidential Attachment EXP 19	████ AUD:EUR spot rates report
Confidential Attachment COSTS 1	CTMS as submitted
Confidential Attachment COSTS 2	PCM cost sheet and price list detail report
Confidential Attachment COSTS 3	'STD (████) vs. ACT 2013 comparison' variance report
Confidential Attachment COSTS 4	Revised CTMS – model-level split
Confidential Attachment COSTS 5	Chapelle Darblay detailed daily production report
Confidential Attachment COSTS 6	November 2013 mill production report
Confidential Attachment COSTS 7	████ delivery charges report
Confidential Attachment COSTS 8	UPM-Kymmene and UPM global functions cost agreement
Confidential Attachment COSTS 9	Charge back report between UPM and UPM-Kymmene
Confidential Attachment COSTS 10	rcpfr income statements
Confidential Attachment COSTS 11	RCP verification documents
Confidential Attachment COSTS 12	Chemicals verification documents
Confidential Attachment COSTS 13	Energy verification documents
Confidential Attachment COSTS 14	Direct labour verification documents
Confidential Attachment COSTS 15	Maintenance verification documents

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Confidential Attachment COSTS 16	Depreciation verification documents
Confidential Attachment DOM 1	<i>Domestic Sales</i> listing
Confidential Attachment DOM 2	Domestic customer names listing report
Confidential Attachment DOM 3	Diagram - <i>UPM Sales OY operating mode</i> <i>Sale of paper products in Europe</i>
Confidential Attachment DOM 4	Three French customer price lists
Confidential Attachment DOM 5	Domestic sales source documents
Confidential Attachment DOM 6	Invoices for domestic sales delivered [REDACTED]
Confidential Attachment DOM 7	French inland transport costs report
Confidential Attachment DOM 8	Transport insurance report