



INVESTIGATION INTO COPY PAPER EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA

RECORD OF MEETING

ANTI-DUMPING COMMISSION AND FUJI XEROX AUSTRALIA PTY LTD

Date: 20 February 2014

Attendees:

Fuji Xerox Australia Pty Ltd

Ian Bowden
Business Manager

Craig Flavell
Executive General Manager

Devlin Bell
EGM Business Services CFO

Lincoln Glendining
Legal counsel

Anti-Dumping Commission

Joanne Reid
Director, Operations 2

Michelle Gibson
Manager, Operations 2

Discussed:

1. Rebates received by Fuji Xerox in relation to imports of copy paper from China

- The [REDACTED] visit report noted that rebates were provided to Fuji for its purchases of copy paper. The Commission queried why this was not discussed with the Commission during its importer visit to Fuji in November. Fuji advised that it had misunderstood the Commission's focus to be on rebates provided by Fuji to its customers rather than rebates received by Fuji.
- Fuji provided further information on the rebates [*confidential details of price negotiation*] it receives from [REDACTED] on purchases of copy paper. It advised that [REDACTED] provide a \$[REDACTED] rebate off all products except for three products which receive a \$[REDACTED] rebate. The rebates are not linked to a set purchase volume and are paid by [REDACTED] on a quarterly basis. Following the visit Fuji provided the Commission with a matrix of the rebates it received from [REDACTED] during the investigation period.
- Fuji advised that it did not receive rebates from any other Chinese suppliers.

2. Sales prices of Fuji branded paper in the Australia market

- The Commission asked Fuji about the consultation process between it and any customers prior to the customer offering Fuji branded copy paper at a discounted price (such as a catalogue special). Fuji explained that when customers offered Fuji branded



paper 'on special', some customers would simply order a higher volume of copy paper at the standard price whereas some retailers would approach Fuji seeking to negotiate a lower purchase price. At all times, when Fuji branded copy paper was sold 'on special', Fuji had no visibility of the price at which the customer would sell the paper. Fuji provided two recent examples of customers [*confidential customer information*] ([REDACTED]) offering paper 'on special'. [REDACTED] ordered more copy paper at the normal price whereas [REDACTED] approached Fuji and successfully negotiated a lower purchase price to contribute to the promotion.

- Fuji explained that sometimes after a customer request (for the purposes of a promotion) it would sell paper at a lower price in order to retain the customer's business or reduce excess stock.
- Fuji advised that the sales figures it provided to the Commission included some instances where a lower price had been negotiated by the customer, noting this was the case for at least two specific brands – [REDACTED] and [REDACTED]. Following the meeting Fuji identified that paper from one of the selected nine shipments was sold at a lower price to customers. Fuji explained that the product was sold under a clearance strategy to utilise excess packaging materials before the particular product was cancelled.
- In response to the Commission's queries about the low selling price of Fuji paper by a major retailer in early 2014, Fuji provided the Commission with copies of purchase orders and invoices to the major retailer. The price at which the retailer purchased the paper from Fuji was higher than the price at which it sold the paper as an advertised special. Fuji cited this as an example of a retailer decision to provide a 'loss leader' to increase store traffic and overall sales.

3. Fuji's profitability

- The Commission asked whether Fuji took into consideration the cost to purchase the paper and selling, general and administrative costs when negotiating lower selling prices. Fuji advised that when considering customer requests for lower prices for the purposes of specific promotions, it took into account the cost to purchase the paper, fixed costs, the age of the stock and the impact the lower price would have on the market in both the short and long term. The sales price would then be elevated to the CFO as the final decision maker. Fuji also considers the overall bundle of goods that the customer purchases from Fuji.
- Fuji advised that it does not fund customers' marketing of its copy paper.
- The practice of loss leadership was discussed with Fuji noting that many retailers make a loss on low cost/high volume product lines (such as copy paper) in order to increase foot traffic in the store and achieve higher sales overall, which would offset the cost of offering the particular product at a loss.
- The Commission noted that the figures in Fuji's consolidated Profit and Loss (P&L) statement suggest that Fuji [REDACTED]
[REDACTED] [*confidential company structure information*] Rather than considering the financial position of each entity in isolation, they should be considered together.
- Fuji advised that its profitability is also affected by movements in exchange rates. Fuji has recently taken steps to further increase profitability including 'right sizing' some of its staff related costs.



Australian Government
Anti-Dumping Commission

- Following the meeting, Fuji provided the Commission with an updated P&L statement for the year ending March 2013. The P&L contained revised operating costs as the figures provided at the visit represented an 'interdivisional' transfer of operating costs. The operating costs were revised to provide a true indication of actual operating costs. The Commission updated the 'cost to import and sell' spreadsheet to reflect the revised operating costs and the rebates received from [REDACTED]. The Commission also found an error in the spreadsheet which has resulted in marine freight and insurance being double counted and understating profit. The Commission updated the spreadsheet to amend this double count.
- Revised calculations from the updated 'cost to import and sell' spreadsheet show that seven out of the nine selected importations were sold at a profit, with profitability ranging from [REDACTED] [*confidential operational performance information*]
- Following the meeting Fuji provided the Commission with profitability figures for all commodity paper for the periods July 2012 – June 2013 and July 2013 – January 2014. The figures for both periods show that overall, Fuji's sales of all commodity paper were profitable. The Commission notes that profitability was higher in the July 2013 – January 2014 period. Fuji claims that it has taken a number of cost saving initiatives and is on track to reduce operating costs a further [REDACTED] for the year ending 31 March 2014.

Attachments:

Confidential Attachment 1 – email from Fuji to the Commission dated 25 February 2014