## Exporter Briefing – International Paper do Brasil Ltda

Introduction

The International Paper do Brasil Ltda ("IP Brasil") exporter questionnaire response ("EQR") indicates that IP Brasil supplies A4 copy paper [ *arrangement* ] to its associated company International Paper Exportadora Ltda ("IPEX") which then exports the goods to certain countries including Australia.

Both companies are subsidiaries of International Paper Company (International Paper"), a US based company.

IP Brasil has three manufacturing facilities – Mogi Guacu Mill, Luiz Antonio Mill, and Tres Lagoas Mill.

The Mogi Guacu Mill has a pulp production capacity of 400,000 tonnes, a paper production capacity of 435,000 tonnes, and operates 4 paper machines. The mill has FSC certification.

The Luiz Antonio Mill has 410,000 tonnes of pulp production capacity, paper capacity of 360,000 tonnes, and has 2 paper machines. The mill has FSC certification.

The Tres Lagoas Mill commenced production in 2009, does not have pulp production, has paper capacity of 234,000 tonnes and operates 1 paper machine. The mill has FSC certification.

Pulp supply

According to the International Paper 2015 annual report, IP Brasil manufactures pulp using timber sourced from forestlands of 335,000 acres that it owns or manages. Pulps produced include southern softwood pulp and birch hardwood. The comment that IP Brasil "owns or manages" the forestlands is important for the Commission to investigate. The [*arms length nature of sales*] to determine whether the relationship influences the purchase price.

International Paper Segment Reporting – Brazilian Papers

The International Paper Annual Report indicates that net sales for the 2015 year were $878 million compared with $1.1 billion for 2014. Operating profits were $186 Million (compared with $177 million for 2014).

Importantly, it is reported:

- sales volumes in 2015 were lower than 2014 due to weak economic conditions;
- average domestic prices increased due to price increases in the second half of 2015;
- however, margins were "unfavorably" impacted by "an increased proportion of sales to the lower margin export markets"; and
- raw material costs increased for energy and wood.

It is further stated that in the first quarter of 2016:

- weaker customer demand for "uncoated woodfree paper" (which includes A4 copy paper) is apparent;
- average price improvements are expected due to increased pricing on the Brazilian domestic market for "uncoated freesheet paper";
- input costs for chemicals and electricity are expected to be higher.

IP Brasil Exports

[*Graph of exported volumes and FOB prices*]

The above graph shows Export volumes from Brazil to Australia during the investigation period. Given that Brazil imports are not visible on any publicly available data (i.e. ABS import stats), due to either misclassification or avoidance of duties, we have surrogated data commissioned by AP from [Data provider]. [C*omment re classification of imported goods*]

AP considers this data to be reasonably accurate and relevant since it supports our market intelligence of Brazilian volumes being purchased in the domestic market.

It can be easily seen from this graph that volumes have increased over this period, significantly so in the investigated 2015 year. At the same time, the FOB US $/T price has decreased consistently. This highlights the commodification of the goods in the domestic market, further evincing AP's assertion that purchasing behavior is directly linked to pricing as opposed to perceived quality. This also evidences International Paper Annual Report's statement that export margins were reduced in 2015.

Interestingly, the FOB US $/T price of imports arriving in Australia has decreased despite a world pulp price increase over the investigation period, see graph below.

*[Graph of world pulp prices by month in 2015*]

IP Brasil's Australian Sales

IP Brasil sells on the export market via IPEX. IPEX deals with the Australian importer, [Importer name]. IPEX consigns the A4 copy paper on a full container load basis to designated Australian ports, in accordance with orders received from [Importer name] and on established trading terms.

IP Brasil has two "channels" of sales to Australia. One is direct from mill. With the other from warehouse to export port.

IP Brasil claims that it provides no "rebates, discounts or allowances" on export sales to Australia. Australian Paper urges the Commission to fully explore this issue with IP Brasil as rebates and discounts are common in the A4 copy paper market.

[*type of common customer support in market*].

[*Name]* competes directly with the Brazilian imports within the Contract Stationery channel, and as you can see below the [*name*] sales *[ trend* ]. This is despite a net price decrease by [*name*] over the same period, further highlighting the fact that the domestic market is being undercut dumped imports.

[*Graph of sales volumes and net price to customer*]

Rebates

Rebate programs

*[ types of rebates in market]*

Reconciliation of rebates [*details on form of support*].

Specifications

Australian Paper has nominated the specifications of the A4 copy paper the subject of the application. IP Brasil considers its specifications to be confidential, however, as the mills have FSC certification this information is readily available on the goods as imported.

IP Brasil domestic sales

IP Brasil sells direct to end-user (customer) and via an affiliated distributor, IP Comercio (for smaller volume sales). It is claimed by IP Brasil that the level of selling activities "varied significantly" based upon customer category, and therefore different levels of trade apply.

Australian Paper notes, however, that IP Brasil has stated that it sells to customers and to its affiliated distributor IP Comercio only. The so-called differing selling activities [ *cause of price differences*] .

Price comparison

The Dumping and Subsidy Manual is clear on "Due Allowance" for differences in levels of trade between domestic and export sales:

> "*The evidence must demonstrate that the sales being compared were made at different levels of trade. An adjustment for trade level will* ***only*** *be made when these differences in level of trade are* ***shown to have affected price***" (emphasis added).

The Commission is tasked with establishing whether the IP Brasil domestic sales to a distributor are comparable with the export sales of IPEX to the Australian importer [*price comparison*] .

Separately, IP Brasil is seeking a level of trade adjustment on the grounds that it can demonstrate differing selling activities between the domestic and export sales. It is claiming that IPEX (IP Brasil's selling agent on the export markets) undertakes certain selling activities for the export sales to Australia that differ to the selling activities that IP Brasil itself undertakes on the domestic market in Brazil.

It is further claiming that the selling activities undertaken by IP Brasil (via both channels to market – i.e. direct to customer and via a distributor) are at the "highest level of service" and therefore warrant an overall downward adjustment to the IP Brasil normal value.

Australian Paper reflects further on the requirements annunciated in the Dumping and Subsidy manual that states "*there must be consistent and distinct differences in sales prices in order to establish a real difference in level of sales, again emphasizing that it is price comparability that we are concerned with*."

The Commission will examine the pricing structures of IP Brasil. [*examine basis for differences in selling prices*] .

As the domestic sales to the associated distributor IP Comercio are not to an unrelated party, the selling prices cannot be relied upon [*impact of relationship on price*].

Australia Paper further observes IP Brasil's claim to seek due allowance based upon costs arising from the alleged differing functions performed on the domestic and export markets. IP Brasil has detailed the so-called cost differences at Section E-3 of its EQR. Australian Paper contends that this information is not confidential and requests the Commission to require IP Brasil to detail each cost function in a public file document.

In the absence of the cost items listed by IP Brasil, Australia Paper would assume that the claimed cost differences between domestic sales (incurred by IP Brasil) and export sales (incurred by IP Comercio) relate to the extent of *[ activities* ] between domestic and export sales, claimed [*activity*] offered on domestic sales that is not apparent on export sales.

Australian Paper urges the Commission to exercise caution in accepting the assertions of IP Brasil and to be satisfied that any claimed cost function can be fully verified and substantiated.

Transportation

IP Brsail is also seeking an adjustment for internal domestic freight to normal value that is incurred in both asserted "channels" to market in Brazil. The claimed freight costs relate to freight incurred from plant to customer (Channel 1), and from plant to warehouse to customer (Channel 2).

The Commission is requested to ensure that the actual costs for sales via warehouse to customer can be fully established and that average freight charges based on a limited number of sales are not accepted.

Packaging

IP Brasil claims that packaging for domestic and export sales are the same. Australian Paper submits that additional packaging is required for export sales.

IP Brasil uses a BOPP (biaxially-oriented polypropylene) wrapping which they claim is recyclable for their export copy paper. In the public file version of Importer; [Importer name] submission the below statement is made.

> *"The product offered was FSC certified, carbon neutral and included a [Redaction] recyclable wrapper made from BOPP (Number 5).* [Importer name] *believes the inclusion of a BOPP wrapper [Redaction] to the Australian market as it's the [Redaction] recyclable wrapper available."*

[*assessment of claim re wrapping*].

Australian Paper estimates that the [*cost differential between domestic and export*] approximately AU xxxx cents per ream, or AU $xxxx / tonne.

Advertising expenses

It is noted that IP Brasil has incurred advertising expenses for some domestic sales

[*advertising expenses to relate directly to like goods*].

Unknown claimed expense

Item E-2.13 details a "confidential selling arrangement" with full redaction. Australian Paper considers this approach to full redaction is inconsistent with the Commission's public disclosure requirements and requests details of the nature of the claimed expense in order for Australian Paper to comment.

A4 copy paper exported to Australia

IP Brasil will advise the Commission as to the source of production of the goods exported to Australia. IP Brasil operates three production facilities – two are integrated to pulp, with the third a pulp purchaser. Once the production facility for the exported goods is identified (FSC traceability may be useful here) the Commission can compare relevant domestic selling prices with the fully-absorbed cost to make and sell the goods from the relevant production facility.