Exporter Briefing – APP Indonesia

I. Introduction

APP operates three mills that have been identified as exporters of A4 copy paper to Australia:

(i) PT Indah Kiat Pulp & Paper TBK (Indah Kiat");
(ii) PT Pindo Deli Pulp and Paper Mills ("Pindo Deli"); and
(iii) PT Pabrik Kertas Tiwi Kimia TBK ("Pabrik Kertas").

Indah Kiat and Pabrik Kertas are publicly listed companies, whereas Pindo Deli is a private company (within the Sinar Mas Group). 2015 Annual Reports are available for Indah Kiat and Pabrik Kertas.

Pindo Deli is an integrated facility with 1 million tonnes of pulp, 913,000 tonnes of paper, 545,000 tonnes of tissue and 96,000 tonnes of packaging production. Pindo Deli has two plants located at Karawang, West Java.

Indah Kiat's 2015 turnover was US$2.8 billion in 2015. The company operates a fully integrated pulp and paper mill in Riau, and two manufacturing facilities in West Java. Indah Kiat's Perawang Mill has 4 production lines and is targeting two million tonnes of pulp production.

Pabrik Kertas has a 1.2 million tonnes annual capacity for paper and paperboard production, and a converting capacity of 320,000 tonnes per annum. In 2015, the turnover for Pabrik Kertas (excluding subsidiaries) was US$ 695 million.

Indonesian Pulp and Paper Association predicted a 20% growth in the pulp and paper industry in Indonesia in 2016.

Rusli Tan, Deputy Chairman of the Indonesia Pulp and Paper Association (APKI), said that growing pulp and paper consumption in Asia is important for the global industry as consumption of these products has been declining in North America and Europe where computers and mobile devices have increasingly succeeded in replacing paper products. Tan added that the Indonesian government must support the domestic pulp and paper industry in order to safeguard a competitive industry as well as to increase domestic production capacity in order to uphold the current market share in the Asian region. He also said that enhanced infrastructure development is key to raise performance of the nation's pulp and paper industry. Therefore, he puts his trust in Joko Widodo, the soon-to-be president of Indonesia, who emphasized during his campaiging that infrastructure development is required in order to reach +7 percentage point economic growth. According to Tan, improved infrastructure in Southeast Asia's largest economy could make the pulp and paper industry grow by 20 percent in 2016 as it leads to a decline of logistics costs and thus higher purchasing power (which will also positively affect the pulp and paper industry).

II. Indah Kiat EQR

Export sales to Australia

The Indah Kiat exporter questionnaire response ("EQR") indicates that it is related to the Australian importer, hence the export price is likely to be affected by this relationship. It is further noted that Indah Kiat provides an early settlement discount to its Australian customers. The level of this discount requires quantification.

AP understands that the APP related party importer of the goods is [APP related party] [Website]

Domestic Sales

Indah Kiat's domestic sales are made to its related distributor company PT Cakrawala Mega Indah ("CMI") who on-sells to unrelated domestic customers. CMI allegedly performs the selling functions. Indah Kiat has provided the Commission with sales by CMI to customers in Indonesia. PT Indah Kiat and CMI to be treated as a single entity for normal value purposes.

The Indah Kiat EQR confirms that the company does not provide rebates, discounts or commissions to CMI. However, CMI provides rebates that [*type of rebates and support by Indah Kiat*] .

Indah Kiat states that some domestic customers pay on a "progressive payment" basis. There exists a potential here that not all revenues would be included for the purpose of verification.

Fair comparison

Indah Kiat is seeking adjustments for credit costs, and an inland freight cost for export sales. It is claimed that there exists no cost differences between domestic and export packaging. The Commission is encouraged to validate this claim.

Production costs

Indah Kiat is an integrated producer. It is stated that pulp is transferred at market price. As it is an integrated process, the Commission is requested to examine fully absorbed cost principles associated with pulp manufacture incurred by Indah Kiat.

Countervailing

Indah Kiat acknowledges the National Industry Development Master Plan 2015-2035 that has the pulp and paper industry as a designated 'priority industry'.

The company has detailed the royalty stumpage payable to the Government of Indonesia ("GOI") during the period of investigation. Indah Kiat has indicated that plantation pulp woods were used in the pulp manufacturing process. All of the logs used in pulping were purchased locally (i.e. no imported logs used).

The Indah Kiat EQR confirms the ongoing GOI export ban on logs which will impact the log price sold domestically in Indonesia.

Indah Kiat states that in relation to the debt forgiveness program for APP/Sinar Mas Group (which Indah Kiat, Pindo Deli and Pabrik Kertas are associated companies) it is claimed that the "allocation period for this non-recurring subsidy used by US-DOC is 13 years, which expired in 2015". The 2015 year is the period of investigation and is included within the 13 year period and should be investigated by the Commission.

Section H-3 "The Copy Paper Sector" refers to export taxes, VAT taxes and any changes being considered in relation to taxes in general as applied to the Pulp and Paper sector. The following is noted at Note 34 (h) of Indah Kiat's 2015 annual report:

> "*On January 2, 2007, the Government of Indonesia stated Decree No. 1 Year 2007 on "Income tax Incentive for Capital Investment in certain industry and/or Certain Territory." Based on that decree, companies that fulfilled all the requirements under the decree would benefit tax incentives, which included reduction on taxable income of 30% for the investment value to be charged over six (6) years at 5% each year and accelerated depreciation and amortisation*."

Thus it would seem that Indah Kiat has benefited from a reduction in its corporate tax rate as a consequence of incentives provided that involve capital expenditure outlays.

The Commission is therefore requested to examine Indah Kiat's recent capital investments (i. in the six years preceding 2015) to establish any tax incentives/benefits received from the GOI.

III. Pindo Deli

Export sales to Australia

Sales by Pindo Deli involve a fixed sales margin. The importer in Australia is related to Pindo Deli.

Domestic sales

As with Indah Kiat, sales are via PT Cakrawala Mega Indah ("CMI"). Also, no rebates allegedly provided by Pindo Deli, but there are rebates and discounts provided by CMI (which would require reimbursement).

Fair comparison

As per Indah Kiat above.

Production costs

Pindo Deli is an integrated pulp and paper manufacturer. It is stated in the EQR that pulp is transferred at "market prices". The Commission is requested to examine fully absorbed cost principles associated with pulp manufacture incurred by Pindo Deli.

*Countervailin*g – refer Indak Kiat above.

As no annual report is available for Pindo Deli, it is not clear whether Pindo Deli has benefited from taxation incentives from the GOI for new capital investment (including upgrades) in most recent 6 year period.

IV. Pabrik Kertas

Export sales, domestic sales, price comparison comments as per Indah Kiat above apply to Pabrik Kertas also.

Pabrik Kertas 2015 Annual Report

Pabrik Kertas prepares an annual report. Total consolidated sales revenue (i.e. including subsidiary companies) was approximately US$1 billion.

The Commission's attention is drawn to related party transactions as disclosed by Pabrik Kertas.

> *The Company and its Subsidiaries, in the ordinary course of business, enter into trade and financial transactions with related parties. The related parties are under common control by the same stockholders and/or the same Boards of Directors and/or Board of Commissioners of the Company and its Subsidiaries.*
>
> *Trade transactions made with related parties consist primarily of sales of finished goods and purchases of raw materials. Sales to related parties represent approximately **34.59**% and **36.41**% of the Company's net sales in 2015 and 2014, respectively. Total raw material*

*purchases (pulp) from related parties represent approximately **95.30**% and **100**% of the Company's total pulp purchases in 2015 and 2014, respectively.*

Significant transactions with related parties were as follows:

*a. The Company and its Subsidiaries sell paper, packaging and scrap paper on the local and international market through related parties. Total export sales through related parties represents approximately 1.09% and 1.50% of the Company's export sales in 2015 and 2014, respectively (Note 30). Total local sales through related parties represents approximately **98.87**% and **99.99**% of the total local sales in 2015 and 2014, respectively (Note 30). The related party receivables as of December 31, 2015 and 2014 are presented as part of "Trade Receivables - Related Parties" in the consolidated statements of financial position (Note 6).*

*b. In 2015 and 2014, the Company purchased raw materials, indirect materials and spare-parts from PT Indah Kiat Pulp & Paper Tbk, PT Lontar Papyrus Pulp & Paper Industry and other related parties amounting to USD470.7 million and USD540.2 million in 2015 and 2014, respectively, representing approximately **44.30**% and **45.21**% of the net sales. Balances related to these transactions as of December 31, 2015 and 2014 are presented as part of "Advances to Suppliers" (Note 9) and "Trade Payables - Related Parties" (Note 19) in the consolidated statements of financial position.*

*c. **APP provides certain management services to the Company**. The management fee in connection with these services was **USD9.5 million and USD10.9 million** in 2015 and 2014, respectively, which was presented under "Operating Expenses - General and Administrative - Management and Professional Fee" (Note 32b).*

Australian paper has highlighted that Pabrik Kertas purchases almost exclusively its raw material pulp from related parties. In terms of domestic sales, all are made through a related party distributor, CMI. For export sales, a small proportion of total export sales are to related parties. Other raw material purchases are also made from related parties accounting for 45 per cent by value in 2015. For these purchases, the Commission will need to examine what non-related purchase prices apply and compare and contrast these with related party purchases.

The APP management fee must also be identified in Pabrik Kertas (along with Indah Kiat and Pindo Deli) accounts and ensure these fees are included in the costs verified by the Commission.