

## PUBLIC RECORD



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### **Re: Dumping investigation ADC 225**

#### **Copy paper exported from China**

#### **Response to Statement of Essential Facts**

The following submission comments on and raises issues arising from the Statement of Essential Facts (SEF) published by the Anti-Dumping Commission on Friday 14<sup>th</sup> March 2014.

#### **1. Summary of Preliminary Findings and Conclusions**

The SEF concludes that Australian Paper has suffered injury in the form of loss of sales volume and market share, price depression, loss of profit and profitability, reduced capacity and capacity utilisation, reduced employment and reduced return on investment.

The preliminary findings are that copy paper exported to Australia during the investigation period (1 July 2012 to 30 June 2013) was not dumped or, in the case of one exporter, was dumped by a negligible margin. The margin by which the largest Chinese exporter was found not dumping was a slender 0.95%.

Five exporters accounted for 97.4% of exports of copy paper from China to Australia and three importers accounted for approximately 97% of imports.

The SEF appears to conclude that loss leadership by retailers is a significant source of the injury being suffered by Australian Paper.

Australian Paper certainly has suffered major injury and the flow-on effects of extraordinarily low retail prices offered by certain outlets and the flow on effects from this are a significant contributing factor. We believe that, rather than being entirely attributable to loss leading, there are other arrangements in play in facilitating the extremely low prices recently seen in the marketplace post the formal FY2013 investigation period, but occurring while the investigation was under way.

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### 2. The structure of paper supply contracts

In our submission of 6 March 2014 responding to the Record of Meeting in respect of Fuji Xerox Australia dated 20 February 2014, we drew the Commission's attention to the industry practice

*[Paper supply contracts discussion]*

UPM visit report states that "Neither UPM AP nor UPM Australia has any standing agreement with Australian customers".

*[Discussion of UPM supply agreements]*

### 3. Developments in the Australian Market since 30 June 2013

There have been developments during the term of the investigation, but subsequent to the formal investigation period chosen by the Commission.

The retail copy paper channel, since late 2013, appears to be inundated with exceedingly low-priced copy paper imported by Fuji Xerox from two Chinese manufacturers, UPM-Kymmene (branded Fuji Xerox Laserprint and Fuji Xerox Everyday Paper) and Yueyang Paper (branded Fuji Xerox Express and also sold as a retail customer brand). From information in the SEF, Yueyang Paper appears to be a new entrant in copy paper exports to Australia.

As previously brought to the Commission's attention, the following extremely low retail prices have been observed since late 2013:

*[Details of low price retail offers]*

As retail offers, all of these prices include 10% GST and correspond, as in previous submissions, to FOB prices calculated (Confidential Attachment 5) as ranging from:

*[FOB calculations for low price retail offers]*

During this period, the reported FOB price ex Shanghai was [REDACTED], which would equal a GST inclusive price of [REDACTED] delivered FIS retailers city store (Confidential Attachment 5) without allowing any profit or cost recovery margin for the importer. This would indicate that, were loss leading to be the explanation, retailers would need to be loss-leading by [REDACTED], without any allowance for their advertising, stocking and selling costs. [REDACTED]

We also draw attention to the improved profits of major retailers. This also does not support the proposition that [REDACTED], copy paper, is being sold at a loss by retailers [REDACTED].

Whilst some part of the difference between this and the FOB [REDACTED] may possibly be due to loss-leading by the retailer, this is very unlikely to account for the major part of the discrepancy.

*[Nature of the Importer/Exporter relationship]*

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There is certainly, on the basis of these examples, a case for revisiting a part of the investigation with particular reference to the rebates and other allowances applying to sales by importers to their major customers and also for widening the timeframe of the assessment to include the low retail price transactions in late 2013/early 2014.

### 4. Movements in Import Prices and Dumping Margins since 30 June 2013

Australian Paper has undertaken a calculation of the movement of dumping margins, comparing the YE June 2013 chosen by the Commission with the period July 2013 – February 2014 which is the most recent data available to us.

*[Calculation of recent dumping margins]*

There is a distinct and significant trend towards dumping, to the point where dumping margins are, for the Jul-13 to Feb-14 period, well above the 2% cut off level for measures to be imposed.

For the other mills and ports of export, there is a similar movement to dumping.

The dumping investigation period and margins should be revisited.

### 5. Other Items arising from the SEF

- S.6.5.3. of the SEF states that *“As Gold Huangsheng did not have any domestic sales of like goods during the investigation period ....”*. It is our understanding that the APP “Gold Flagship” copy paper which we purchased retail in China in 2013 and provided detailed test results for in our submission of 14 October 2014 is manufactured at that mill. It may be that the Commission was incorrectly informed.
- Attachment 1 Point 6 – see detailed discussion in s.2. above.
- In attachment 1 points 7 & 12, the Commission has repeated its finding that *“the volume of pulp purchased from related companies was small in comparison to the volumes purchased from non-related companies”*.

This is clearly and directly at odds with Chinese pulp import statistics, so there is either a misunderstanding between UPM and the Commission, selective use of data or a trading intermediary in place.

Chinese pulp import statistics (provided to Australian Paper by TradeData and provided to the Commission on 25 October 2013) reveal that 340,000 tonnes of bleached hardwood pulp was imported from Uruguay to ports serving Changshu mill in YE 30 June 2013. The only export scale pulp mill in Uruguay belongs to UPM. It has a capacity in excess of 1 million tonnes/year of bleached hardwood pulp.

Between 0.7 and 0.8 tonnes of bleached hardwood (eucalypt) pulp is consumed per finished tonne of copy paper, so 340,000 tonnes of pulp from Uruguay would make 425,000 – 485,000 tonnes of copy paper i.e. the full capacity of UPM Changshu PM1.

Coated paper, made on UPM Changshu PM2 uses a significantly higher proportion of bleached long fibre pulp than the copy paper made on PM1. We are also unsure of the suitability of the eucalypt pulp from UPM Uruguay for the smaller short-fibre component of PM2 coated paper.

We suspect that the pulp data the Commission have examined may have been for the whole Changshu mill (PM1 & 2) rather than just for Changshu PM1 or for copy paper. We also ask whether it included the pulp purchased by UPM AP and then used by UPM Changshu for toll manufacture of export copy paper. If it was only for the pulp PURCHASED by UPM China, this would heavily skew the mix toward pulp used in coated papers and away from the short fibre pulp purchased from UPM Uruguay, leading to the apparent false conclusion.

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Another explanation may be that there is a specialist pulp trading intermediary facilitating the pulp shipments and handling the sales paperwork, so that UPM Uruguay does not appear on the invoices. The ultimate source of supply, however, remains from a related party

The contention that *“the volume of pulp purchased from related companies was small in comparison to the volumes purchased from non-related companies”* cannot, on the evidence of import statistics, be correct. It may be an artefact of the extremely odd arrangement for UPM AP to purchase and retain ownership of raw materials used to manufacture paper for export – a practice which seems to have tax issues. Alternatively, there may be an intermediary acting in the pulp transaction between UPM Uruguay and UPM Changshu.

- In attachment 1 point 8, the Commission has stated *“It is unclear to the Commission on what basis Australian Paper assumes domestic distributors only handle UPM copy paper and no other brand”*.

We ask whether the Commission has collected evidence to the contrary.

Our understanding of the usual practice in Asian markets which act without the benefit of Western-style trade practices law is that predominantly, manufacturers require their first line distributors to give them exclusivity, with the penalty being withdrawal of supply and appointment of an alternative distributor. This situation puts the manufacturer and distributor in a non-arms-length relationship not unlike the relationship between a fast food franchisor and franchisee.

We have no direct knowledge on whether this applies to specific manufacturers and their distributors.

- In attachment 1, point 13, the Commission states that *“Australian Paper is assuming that ash disposal costs in China would be ‘quite significant’ as they may well be in Australia. Coal ash is not always disposed of but can be used to make bricks, concrete and road base, which would incur little or no disposal cost”*.

Did the Commission establish that the ash was, in fact disposed of in this way? China’s power generation is predominantly based on coal, and so there is a large over-supply of coal ash. Indeed, in the same industrial estate as the UPM mill, there is a major utility coal fired power station, as well as other industrial coal fired power stations similar to that of UPM.

- Attachment 1 points 16, 17 & 24 relate to domestic sales and costs associated with domestic sales.

While AP acknowledges that there domestic sales of both mill brand and customer brand product, it is not clear which of the warehousing, marketing and regional sales office expenses have been allowed as an adjustment to normal value and which have been disallowed. We continue to contend that the comparison should be ‘like for like’, with only adjustments to normal value which would apply to ‘customer brands’ being allowed as valid.

The nature of customer brands is that they are generally negotiated at head office level, produced to order, then dispatched directly to the customer’s warehouse. As such, warehousing, marketing and regional sales office expenses do not apply and are not valid adjustments in the normal value calculation which is for customer branded product.

It remains our understanding that, within China, UPM sells predominantly UPM-branded copy paper.

- Attachment 1 point 29 – see detailed discussion in s.2. above.

## 6. Other

- The UPM China visit report, while dated December 2013, was published by the ADC on their website on 17 February 2014. While this gave us sufficient time to respond based on information we had at hand, it did not allow sufficient time for us to conduct any in-country checks on claims made, such as volume rebates in the Chinese market
- Similarly, the Fuji Xerox meeting minutes published 5 March 2014 (and the associated revision of the Fuji Xerox visit report made on 27 February 2014) gave us little time to respond, limiting us to information at hand and not allowing time for any marketplace enquiries.

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- The revision of the Fuji Xerox visit report made on 27 February 2014 only came to our attention when the meeting minutes were published on 5 March, as there was no flag on the website to indicate the revision. This limited our ability to provide a fully researched response.

*[Import price discussion]*

### 7. Summing Up

Australian Paper has been injured and continues to be injured by low priced copy paper imports from China. We remain strongly of the view that dumping is taking place and that all consideration associated with the copy paper shipments from China and also in their on-selling by the major importer have not been discovered by the Commission, given the severe discrepancy between import statistics and actual retail sales prices seen in the Australian market.

In addition, there has been a significant movement towards dumping when the investigation period, FY2013 is compared with the post-investigation period of Jul-13 to Feb-14, for which a positive dumping margin [REDACTED] has been calculated for the major exporter.

There are also a series of discrepancies which we have highlighted which should be conclusively resolved before the investigation is closed.

Yours sincerely,



**Garry Jones**

Planning & Development Manager

Australian Paper