

5 January 2015

Mr Geoff Gleeson
Director
Anti-Dumping Commission
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Public File

Dear Mr Gleeson

Investigation No. 242 – Newsprint exported from France and Korea – Jeonju Exporter Visit Report

Introduction

I refer to the Exporter Visit Report for Jeonju Paper Corporation ("Jeonju Paper") recently placed on the Public File. Norske Skog Industries (Australia) Limited ("Norske Skog") seeks to clarify a number of matters identified in the Jeonju Paper Exporter Verification Report ("the Report").

Like Goods

It is noted at P. 13 of the Jeonju Paper Report that the Commission has determined that Jeonju Paper's range of 'newsprint' as defined by the goods description to be:

- *'standard newsprint. manufactured up to 46gsm; and*
- *'coloured newsprint' manufactured up to 46gsm and up to 70 ISO brightness."*

In an email dated 19 August 2014 to the Commission, I indicated that coloured newsprint was not considered to be a like good to the goods the subject of the application. The ISO brightness factor was consistent with *standard* newsprint, and for this reason coloured newsprint was not considered to be included within the goods description. Norske Skog was not aware of any imports of coloured newsprint during the investigation period.

Norske Skog does not consider that coloured newsprint is a like good to the goods the subject of investigation and should be excluded from Jeonju Paper's normal value calculations.

Adjustments – Physical Differences

Newsprint sold domestically in Korea is 46gsm, whereas the goods exported to Australia are 42gsm. It is noted at P.42 of the Jeonju Paper Report that:

"Jeonju has submitted to the Commission that either 46gsm newsprint, or both 45 and 46 gsm, were preferable matches to exported products for normal value purposes. The Commission will further consider this matter."

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It is not clear from the Report whether this matter has been resolved with Jeonju Paper. Norske Skog again submits that it is its understanding that 46gsm standard newsprint is sold domestically in Korea. In the event that there are some limited domestic sales of 45gsm newsprint, an adjustment is still required for the physical differences to the 42gsm exported goods.

The Commission has made adjustments to Jeonju Paper's normal value for physical differences between the newsprint sold domestically and the 42gsm standard newsprint sold for export. The methodology adopted and the factors employed in adjusting the Jeonju Paper domestic sales of newsprint to permit a *fair comparison* with the goods exported to Australia will materially impact the determined dumping margin.

It is critical that the correct adjustment for physical differences between the domestic and export sales is made.

The Commission confirms at P. 46 of the Jeonju Paper Report that an adjustment for physical differences is required as it "*can demonstrate that there is a difference in price between [Confidential Text Deleted – product codes]*". The Report further indicates that the Commission adjusted Jeonju Paper's normal value by "*uplifting the [product code] normal value by the ratio of the cost difference in the export market between [product codes] paper. We then included the gross margin across all domestic sales in the uplift resulting in an uplift ratio, including gross margin.*"

Norske Skog does not dispute the principle adopted by the Commission to adjust the normal value by the cost difference between the domestic and exported goods, uplifted by the margin. The Anti-Dumping Manual extracts detailed at P. 45 and 46 of the Jeonju Paper Report indicates that most adjustments made for differences in physical characteristics are based upon production cost differences. Norske Skog's *prima facie* normal value assessment estimated that the likely adjustment between the domestic and exported goods was in the range A\$xx to A\$xx per metric tonne. Norske Skog's understanding from their own production experience is that the key factors to analyse in determining the production cost difference are:

- Furnish cost – As 42gsm newsprint is a lighter and thinner product than 45 or 46gsm we would usually expect that the furnish cost on a per tonne basis would be higher. This results from the addition of higher cost raw materials to achieve the required strength and opacity specifications in a thinner product.
- Productivity costs – The nature of 42gsm products compared to 45 or 46gsm products is such that they are more difficult to produce, break more frequently on the paper machine and as a result are produced at a lower efficiency (higher cost).
- Fixed cost allocation – Fixed costs are usually allocated on a time basis (\$/hr) and as a result of the lower tonnes per hour standard production rate for 42gsm (-8.7% vs 46gsm) the fixed cost allocation on a per tonne basis should be 8.7% higher for 42gsm compared to 46gsm.

The Commission is requested to re-examine whether the adjustment for physical difference between the domestic and exported goods is consistent with this cost-based adjustment.

Adjustment for Commission and Advertising

The Commission has made a downward adjustment to Jeonju Paper's normal value for Commission and Advertising expenses incurred domestically as detailed in Jeonju Paper's *Domestic Sales* spreadsheet.

Norske Skog notes that the Commission has not made an adjustment for commission on export sales to Australia. It is Norske Skog's understanding that Jeonju Paper pays a commission of xx per cent on

export sales of newsprint. Norske Skog implores the Commission to re-examine this issue further as a downward adjustment for export sales commission on Jeonju Paper's normal value is required.

In respect of advertising expenses, Norske Skog does not consider that an advertising expense for standard newsprint is consistent with industry practice. Advertising expenses *may* be incurred for more [category] products, however, advertising expenses that can be directly linked to standard newsprint is uncommon. Norske Skog requests the Commission to further examine whether the claimed advertising expenses are directly linked to the standard newsprint like goods the subject of investigation.

It is Norske Skog's experience that the net cost of selling product into an export market should be higher than the cost of selling into a domestic market as the export commission is in fact an extra cost. Domestic suppliers do not usually have a domestic commission, rather they incur domestic selling costs. In the event that a domestic supplier records a domestic commission in their accounts this would usually be in internal company charge intended to cover the cost of selling the goods. However it should also be noted that many of the domestic selling costs incurred by Jeonju Paper would also be incurred on export sales (for example sales administration, order processing, logistics planning etc).

Adjustment for Domestic Inventory Carrying Costs

The commission has made a downward adjustment to Jeonju Paper's normal value for Domestic Inventory Carrying Costs incurred as detailed in Jeonju Paper's *Domestic Sales* spreadsheet.

Norske Skog suggests that this item should be reviewed to make sure that it is clear what inventory is required to be held specifically at the request of domestic customers. Inventory can be held for a number of reasons such as the following:

- To manage production variability (unplanned downtime)
- To manage seasonality in sales volumes (domestic or export)
- To manage sales through planned production downtime
- To enable production of different grades to be campaigned
- To manage variability in export shipment timing and volumes
- As a service requested by domestic customers

It should be noted that most of the reasons for which inventory is carried are not specifically related to servicing the domestic market. In fact some of the reasons for holding inventory would be to enable Jeonju Paper to manage a mix of export and domestic sales. In the event that Jeonju Paper only had domestic sales we believe it is highly likely that Jeonju Paper would in fact hold lower inventory and as such it is possible that there could in fact be an upward adjustment to the Jeonju Paper's normal value as a result of higher inventory carrying costs caused by their export business. In understanding this, the ADC should make sure it analyses the reason the inventory is held and not the type of inventory held. It may well be the case that higher domestic inventory product are carried as a result of the need to service domestic customers during periods when production equipment is being used to produce export products.

Closing remarks

Norske Skog thanks the Commission for this opportunity to comment on the Jeonju Paper Exporter Visit Report. Norske Skog has identified key areas requiring further examination, including:

- the goods included in Jeonju Paper's normal value calculations should be limited to standard newsprint only and exclude coloured newsprint;
- the adjustment for physical differences between the domestic and exported goods is correctly based upon the cost differences between the domestic and exported goods, uplifted for the margin (i.e. including selling and administration expenses, profit);



Norske Skog

- it is understood that Jeonju Paper pays a xx per cent commission on export sales and no adjustment to Norske Skog's normal value has been made to reflect this expense;
- the downward adjustment for advertising expenses is inconsistent with Norske Skog's understanding of an absence of such expenses for standard newsprint, and is more likely related to niche products manufactured by Jeonju Paper; and
- the adjustment for Domestic Inventory Carrying Costs should be reviewed to ensure they are truly and additional cost related only to domestic sales.

Norske Skog respectfully requests the Commission to re-examine the above matters to confirm the validity of the adjustments made.

If you have any further questions, please do not hesitate to contact me on (02) 8268 2037, or Norske Skog's consultant John O'Connor on (07) 3342 1921.

Yours sincerely

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