Australian Paper
a member of the Nippon Paper Group

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Dear Mr King

Investigation No. 341 – Market Situation for Copy Paper in P R China

Australian Paper Pty Ltd ('AP") provides the attached submission in support of its assertion that a particular market situation existed for A4 copy paper in the People's Republic of China ("China") during the 2015 investigation period.

If you have any questions concerning this letter please do not hesitate to contact me on (03) 8540 2451 of AP's representative Mr John O'Connor on (07) 3342 1921.

Yours sincerely

Matt Decarne
Trade Affairs Manager

Market Situation – China

I. Introduction

Australian Paper has asserted selling prices for copy paper in P R China ("China") are not suitable for normal value purposes as it is considered that a 'particular market situation' applies. Sub-section 269TAC(2)(a) of the Customs Act states:

> *"(i) because of the absence, or low volume, of sales of like goods in the market of the country of export that would be relevant for the purpose of determining a price under subsection (1); or*
>
> *(ii) because the situation in the market of the country of export is such that sales in that market are not suitable for use in determining a price under subsection (1);*
>
> *the normal value of goods exported to Australia cannot be ascertained under subsection (1)…*
>
> *the normal value of the goods for the purposes of this Part is:*
>
> *(c) except where paragraph (d) applies, the sum of:*
>
> *(i) Such amounts as the Minister determines to be the cost of production and manufacture of the goods in the country of export; and*
> (ii) *On the assumption that the goods, instead of being exported, had been sold for home consumption in the ordinary course of trade in the country of export – such amounts as the Minister determines would be the administrative, selling and general costs associated with the sale and profit on that sale*;"

The provisions of s.269TAC(2)(a) and (c) permit the Minister to determine that domestic selling prices for the goods under consideration (i.e. A4 copy paper) are not suitable for determining normal values and that normal values can be determined based upon production costs (as determined by the Minister) and selling and administration expenses, plus profit.

The constructed cost methodology, however, relies upon the principle that the costs used must "*reasonably reflect competitive market costs*" and is also relevant where there is government influence on the price of inputs.

The Dumping and Subsidy manual provides guidance as to what impact government influence on prices and costs that could result in "artificially low pricing"[1]. The Commission will consider:

> "*whether the impact of the government's involvement in the domestic market has materially distorted competitive conditions. A finding that competitive conditions have been materially distorted may give rise to a finding that* ***domestic prices are artificially low*** *or* ***not substantially the same as they would be if they were determined in a competitive market***" (emphasis added).

Australian Paper's application for measures demonstrated that the government of China ("GOC") had provided certain raw material inputs at less than adequate remuneration (i.e. calcium carbonate, caustic soda, titanium dioxide, and coal). These inputs are key raw materials used in the paper making process.

Additionally, the application demonstrated that entities in the Chinese pulp and paper manufacturing industry had received benefits in the form of reductions (and/or exemptions) from corporate taxation, as well as VAT reductions (and/or exemptions).

Australian Paper is also aware that the GOC has enforced reform on the "strategic" pulp and paper industry via its Twelfth Five-Year Plan of which 2015 was the last year. The elimination of "outdated" production capacity has been a key driver of the GOC's policies for the industry, however, low-interest

[1] Dumping and Subsidy Manual, Section 7.3.

loans have been provided to certain large integrated pulp and paper industry members to boost production capacity despite the absence of increased demand for paper products within China.

II. Pulp and Paper Production in China

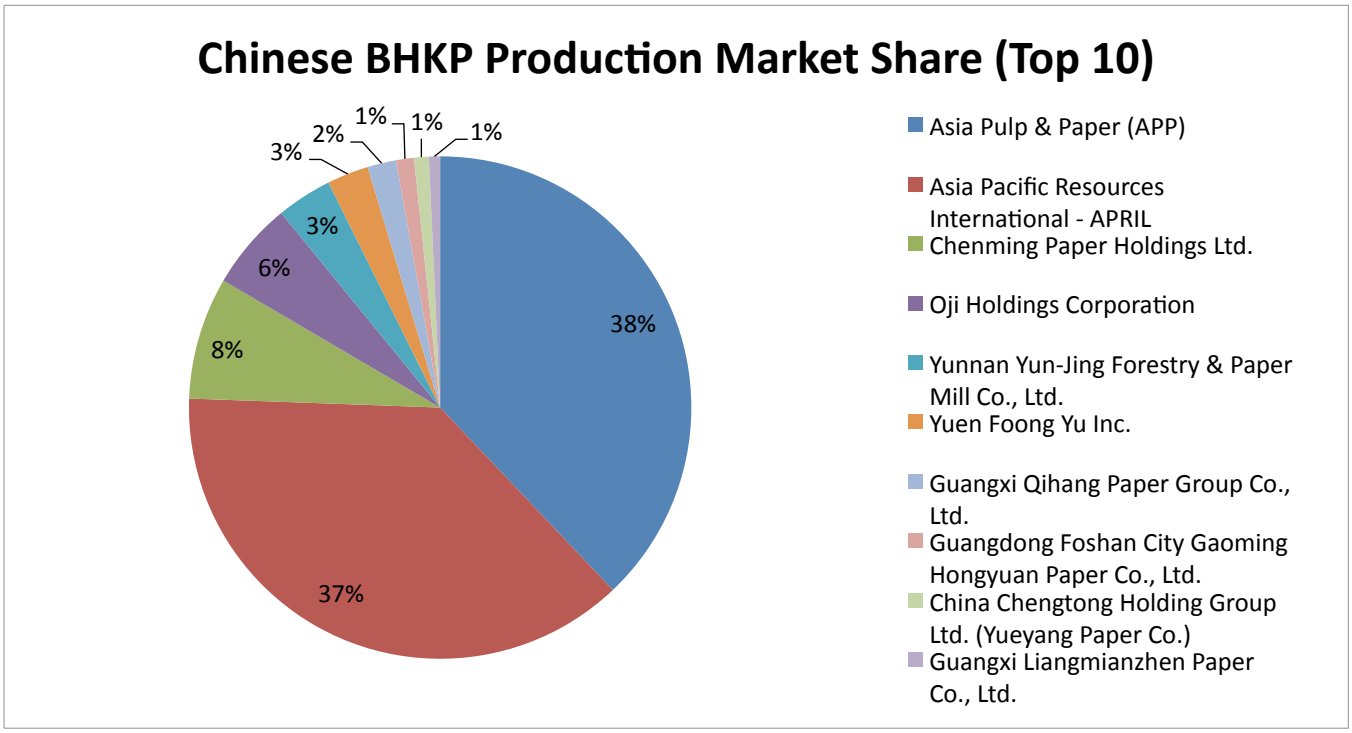
(a) Pulp

China's production of bleached chemical pulp ("BCP") has almost tripled since 2005. In that year China produced 5.7 million tonnes of BCP. By 2014, production had reached 15.3 million tonnes per annum[2]. Production in other regions – including Europe, Japan, North America – had stagnated or fallen. Hawkins Wright states that since 2005, China's BCP "*demand has grown by 11 million tonnes; growth in the rest of the world increased by just 1 million tonnes*".

This level of growth has occurred as a consequence of rationalisation in the Chinese pulp and paper industry, brought about by the closure of outdated capacity, with investment incentives provided for incumbent integrated producers to further expand production facilities to increase economies of scale.

The type of pulp used in the manufacture of uncoated woodfree paper (that includes copy paper) is described as Bleached Hardwood Kraft Pulp ("BHKP"). Of the approximate 4.3 million tonnes of BHKP produced in China annually[3], approximately 3.5 million tonnes is produced by exporters of copy paper to Australia.

The following chart highlights the breakdown of the Top 10 BHKP producers in China[4]:



Australian Paper notes that Shandong Chenming Paper Holdings is installing a further 300,000 tonnes of pulp capacity that can "swing" between softwood and hardwood raw materials. The plant is scheduled to come on line in 2017[5].

[2] Hawkins Wright Price Forecast, April 2016, P.9 (Commercial-in-Confidence Attachment).
[3] RISI, Chinese BHKP Production (Commercial-in-Confidence Attachment).
[4] Source: RISI, BHKP production (Commercial-in-Confidence Attachment).
[5] Hawkins Wright Price Forecast, April 2016, P. 38 (Commercial-in-Confidence Attachment).

(b) Uncoated woodfree paper

The extraordinary growth in BCP investment in China has been due to increased demand from paper producers (integrated and non-integrated to pulp) for domestic and export sales. According to Hawkins Wright, the Chinese market for uncoated woodfree paper based upon 100 per cent wood pulp is circa 3.5 million tonnes[6], of which 3.2 million tonnes is supplied by Chinese companies (with the balance representing UPM Changshu's imported pulp volumes).

Hawkins Wright identifies the key players in uncoated woodfree paper in China as follows:

- Yueyang;
- APRIL;
- APP Gold Huasheng;
- UPM Kymmene Changshu;
- Sun Paper; and
- Chenming.

Hawkins Wright also notes[7]:

- Chenming was to become the largest supplier of uncoated woodfree paper in 2015 following the installation of two lines in Zhanjiang (in addition to production at Shougang);
- Sun Paper and UPM Changshu had anticipated new production by the end of 2015, with UPM exporting a greater share of its total volumes (i.e. about 30 per cent);
- Other uncoated woodfree based wood pulp producers include Nanping, MCC Yinhe, Jindaxing, Zhumadian Balyun, and Puyang Longfeng.

Demand for uncoated woodfree paper in China expanded rapidly from approximately 600,000 tonnes in 2000 to 3.5 million tonnes in 2014 (with further production increases as identified slated for 2015) with the support of GOC incentives.

Australian Paper has identified that the Chinese copy paper producers can be categorised as follows:

- First tier International players – UPM, APP, Asia Symbol;
- Second tier national players – Shandong Chenming Paper, Shandong Sun Paper, Jiulong Paper (Nine Dragons), etc.
- Third tier – Sub-national players – Yueyang Paper, South Paper, Tianhe Paper, etc.
- Fourth tier – Local brands, Local paper mills.

Table 1 details the copy paper production capacities of the major Chinese producers and where pulp is sourced (including whether imported of domestic virgin pulp).

Table 1 – Major Copy Paper Producers capacities and pulp source

Company	Copy Paper Production Capacity	Self Sourced	Imported Wood Pulp	Domestic Virgin Pulp	Comment
UPM Shandong	450	100%	100%		
APRIL	250	100%	10%	90%	
APP	200	100%		100%	19 domestic owned plantations
Sun Paper	100	40%	60%	40%	Self produces 40% with wood resource from local third parties. 60% ex import sources.
Chenming	200	85%	15%	85%	Self produces 85% from own

[6] Defining the China Market 2014, Hawkins Wright, P.28 (Commercial-in-Confidence Attachment).
[7] Ibid, P.28.

					plantations
Yueyang	64	100%		100%	3 owned plantations and 2 pulp mills in Hunan Province

Table 1 highlightss that four of the six Chinese producers are integrated and source virgin pulp from their related supplier forest companies. The remaining two private companies import wood pulp from their affiliated suppliers.

(c) Key players & identified benefits

(i) Chenming

Hawkins Wright's observation that Chenming was in 2015 set to become the largest uncoated woodfree producer in China is not coincidental. Chenming is a state owned enterprise ("SOE") that was founded in 1958 as the Shougang state owned Paper Mill. The company rapidly expanded from 1988 as it acquired other heavily indebted paper mills. It operates mills in Shandong, Guangdong, Hubei, Jiangxi and Jilin (all except Hubei with printing and writing paper production capability).

Australian Paper understands Chenming's uncoated woodfree paper capacity at approximately 937,000 tonnes.

The Shandong Chenming Paper Holdings Limited 2015 Interim Annual Report ("Chenming Report") confirms the recent economic slowdown and weak demand in the paper industry. However, the Chenming Report confirms the introduction of new production capacity which has resulted in "transitional overcapacity" in certain types of paper[8]. It further states that "*due to fierce competition, product prices continue to decline, narrowing profit margins of papermaking enterprises*".

The Chenming Report further states:

> "*Currently, with basically stable production capacity, excess capacity has become the primary problem to be resolved in the industry. As 2015 is the last year of the "Twelfth Five-Year" Plan, elimination of outdated production capacity and increasingly stringent environmental policies are forcing some small and medium-sized enterprises out of the market.*"

And further:

> "*Eliminating outdated production capacity will remove obstacles for the industry's development, while replenishment of and substitution of advanced production capacity will bring fresh blood and drive to the industry, conductive (sic) to a higher concentration ratio to creating a favourable industry lifecycle*."

Also:

> "*As the industry is bottoming out with elimination of outdated production capacity and improvement in supply and demand fundamentals, and the benefits of the Company's integrated forestry, pulp and paper project begin to be realised, it is expected that the Company will turn around with the industrial recovery*."

However, the improved demand has not materialised. This has placed increasing pressure on ensuring exports increase so that production rates are optimised.

In discussing the "Risk Factors" impacting the company, Chenming identifies 'Policy Risk' and 'Operational Risk' as important considerations. In respect of Policy Risk, Chenming states[9]:

[8] Shandong Chenming Paper Holdings Limited 2015 Interim Annual Report, P.17.
[9] Ibid, P.20.

"*At present, the industry has entered into an important transitional period, and the mode which supported the rapid development of the paper making industry in the past has currently faced dual pressures of resources and environment. From the point of view of China's policy, China will change the mode of growth through optimizing the layout of the paper making industry and the raw material structure and product structure, in order to promote a modern paper making industry based on recycling by integrating the forestry and paper making industry, and adjust the industry through entry requirements, environmental standards and energy saving. The development of the Company will be affected by the direction of such policies.*

Elimination of outdated production capacity and stricter environment protection policy has forced some of the SMEs exited the industry. Hence the Company is expected top record long-term revenue."

Chenming makes it clear that the GOC has influenced the 'layout' of the industry through the elimination of production capacity involving SMEs and that the future composition of the industry will be limited by particular 'entry requirements' – this would include only encouraging the larger scale producers (including the key SOEs) to backward integrate into managing raw material forestry plantations and pulp-making facilities at an accelerated rate.

Chenming's comments concerning 'Operational Risk' reflect the GOC's influence on the key SOE industry player:

"*The major raw materials used by the Company are wood pulp and waste paper. The Company's products are mainly comprised of high-end paper, and as the State encourages the increase of the proportion of wood pulp used by the industry, wood pulp, thus, has accounted for a higher proportion of the production cost. The market price fluctuations of raw material have significantly affected the production cost of the Company. In addition to intensified market competition resulting from the surging capacity in the industry in recent years, the market price fluctuations of raw materials will have an impact on the performance of the company.*

Hence, the Company will remain steadfast in the "forestry-pulp-paper integration" development path and focus on the construction of Zhanjiang Chenming pulp project, Huanggang Chenming pulp project and Shouguang chemical pulp project, thereby eliminating the limitations of upper-stream resources on the Company's development and enhancing Company's sustainable development."

The statements reflect Chenming's SOE role in implementing the GOC's 12th Five Year Plan for the pulp and paper industry.

Chenming's increased production capacity has been supported via assistance from the GOC in the form of reduced rates of corporate tax (on certain investment projects), VAT exemptions on imported capital equipment, and reduced input costs on key raw material in the paper-making production process that are not available to producers in other markets external to China. Section "VI Taxation, Sub-section 1 Main Tax Types and Rates" of the Chenming Report confirms that the corporate tax rate in China is 25 per cent, however, for "Hi-Tech Enterprises" the rate is 15 per cent. The Section also indicates that Shandong Chenming Paper Holdings Limited and Jiangxi Chenming Paper Co., Ltd pay corporate tax at the 15 per cent rate, thereby confirming that the entities qualify as Hi-Technology Enterprises under Program 1 identified in Australian Paper's application.

At Sub-section 2 of the Chenming Report, the company identifies the "Tax Incentives" that have been approved by the GOC including "Enterprise Income Tax" at the reduced rate of 15 per cent. For Shandong Chenming Paper Holdings Limited the State Taxation Administration of Shougang, Shandong provided the company (as a high and new technology enterprise) with a 15 per cent tax rate concession from 1 January 2012 to 31 December 2014. The Commission must establish whether this concession was extended into 2015. The Jiangxi Chenming Paper Co., Ltd received the 15 per cent concession also as a high and new technology enterprise for the three year period to 31 December 2015. Chenming's exports of copy paper from the Jiangxi facility during 2015 would attract the reduced subsidy benefit.

At Sub-section 2 (2), value-added tax incentives are discussed. It is confirmed that in accordance with Cai Shui [1995] No.44 "Circular on VAT Exemption for Certain Products Applying Integrated Use of Resources" issued by the State Administration of Taxation", certain enterprises that exceed consumption of raw materials qualifies for a VAT exemption.

The Commission is requested to examine Chenming's eligibility for VAT exemptions for pulp and paper making businesses within the Group.

Grants

The Chenming Report identifies financial grants totalling RMB$1.476 Billion having been received by the Group[10]. It appears that the payments have been received in prior years and are carried as 'Deferred Income' until a project commences operation. Of note is the RMB 266.3 M received for the Zhanjiang integrated forestry, pulp and paper project, and the RMB 114.3 M for "technological modification project" for which specified items have not been supplied.

Australian Paper further notes that the Chenming Group is carrying forward a balance of RMB 161.98 M for the Huanggang Chenming integrated forestry, pulp and paper project that it refers to as a "Special government grant for the integrated, forestry, pulp and paper project".

Conclusion on Chenming

The Chenming Group has received tax concessions that relate to the company's integrated forestry, pulp and paper operations on the basis of it qualifying as a 'new high technology enterprise'. The tax benefit is a 15 per cent concession corporate income tax rate. The Group has also received VAT exemptions on certain eligible projects. Additionally, the Chenming Group is carrying a balance of RMB 1.476 Billion on GOC grants that are targeted to assist the SOE Group's change in operations to become a fully integrated, new high technology enterprise, as the GOC moves to shutdown smaller pulp and paper making enterprises in the industry.

(ii) Yueyang Paper

Yueyang Forest and Paper Co Ltd ("Yueyang Paper") is a subsidiary company of Tiger Forest and Paper Group[11] which in turn is owned by the State-Owned China Paper Holdings Limited[12]. Note 26 of the Yeuyang Paper 2014 Annual Report confirms the company's receipt of subsidies as follows:

> **(1) Associated with asset judgments based on government subsidies and accounting treatment**
>
> The company made for the acquisition, construction, or otherwise form a government subsidy is divided into long-term assets and asset-related government subsidies. Government grants related to assets [are] recognised as deferred income……..
>
> **(2) With income-related government subsidies judgment basis and accounting treatment**
>
> In addition to government asset-related government grants subsidies into government grants related to income. Compensation for related expenses or losses in subsequent periods…..

According to Yueyang's reported cash flows for 2014[13], it received government subsidies amounting to RMB 185.3 M a reduction from amounts received in 2013 of RMB 333.7 M. At Note 29, the company lists "Projects involving government subsidies" for which funds were received during the

[10] Item 35 "Deferred Income" of Chenming Report, P. 112.
[11] Yeuyang Paper 2014 Annual Report, P.6.
[12] Ibid, P.128.
[13] Ibid, P.11.

period totalling RMB 9.7 M that have been recognised as revenue during the period from an opening balance of RMB 74.5 M.

Special corporate tax concessions at the 15 per cent rate were available to Yueyang and its following affiliated companies[14] on the basis that the companies were classified as new high technology enterprises:

Yueyang Paper	Fifteen%
Yongzhou Xiangjiang River Paper Co., Ltd.	Fifteen%
Hunan Chun Thai Pulp and Paper Co., Ltd.	Fifteen%
Huaihua City Shuangyang Forest Chemical Co., Ltd.	Fifteen%

It is further noted that Yueyang discloses that under the "People's Republic of China Enterprise Income Tax Law" the Maoyuan Forestry and Hunan Sennheiser Forestry Limited companies were exempted from income tax.

As a SOE that is directly involved in the GOC's restructuring program in the Twelfth Five-Year Plan, Yueyang confirms its commitment to the 'new reform initiatives' that 'actively promote the management and optimization and upgrading [of] operations[15]'. Yueyang highlights the overall slowdown in the industry, the paper industry overcapacity and the 'intense' competition on the domestic market, and yet recognises its commitment to the GOC's plans that involve the "*elimination of production capacity, innovative product structure transformation*".

The GOC's policies for the forestry, pulp and paper industry that involve vertical integration are observable in Yueyang's investment slate that reflects the construction, acquisition and receipt of grants for interests in forestry, raw material supply (including chemicals such as hydrogen peroxide, water and energy) and pulp, and are fundamental to the SOE-owned Yueyang in achieving stated objectives for the company. The company tax concessions and grants received by Yueyang from the GOC enable it to sell uncoated woodfree paper (i.e. copy paper) at prices lower than it otherwise would.

(iii) Shandong Sun Paper

Shandong Sun Paper Industry Joint Stock Co., Ltd ("Sun Paper") is one of the largest integrated forestry, pulp and paper manufacturers in China. Despite its recent private ownership (the company commenced operations in 1982 as an SOE), the company's 2014 annual report confirms its commitment to maintaining strategic development and 'promote structural adjustment'. Specifically, Sun Paper states[16]:

> "*The company will promote the development of structural adjustment, restructuring and sustained healthy development of enterprises. In 2015 Sun Paper will continue as the primary task of the restructuring business transformation and upgrading, further eliminations of backward production capacity…*"

Sun Paper has received subsidies in the 2014 year that amounted to RMB 33.1 M, that it has disclosed in its accounts for project support ranging from wastewater treatment, power line construction, hydrogen peroxide production, to paper packaging and handling robot investments. Section VI Taxation of the Sun Paper report confirms that the applicable tax rates are 25 per cent and 15 per cent, denoting that certain affiliated companies benefit from reduced corporate tax rates. The notes to the statements indicate that a subsidiary of the related company Yanzhou Wing Yue Paper Co., Ltd has been identified as a high-technology enterprise in 2013 with a validity of three years[17].

[14] Ibid, P.97.
[15] Ibid, P.8.
[16] Shandong Sun Paper Joint Stock Co., Ltd 2014 Annual Report, P. 24.
[17] Ibid, P.111

It is also note dthat the China Construction Bank, the Bank of China, and the Industrial and Commercial Bank of China (Policy Banks) have shareholdings in Sun Paper which suggests that there has been debt for equity swaps in the company in the recent past.

Despite Sun Paper being a private company, it is the subject of the GOC's industry's plans as detailed in the Twelfth Five-Year Plan and actively communicates its commitment to delivering on the objectives of the GOC's stated policies for the industry. Additionally, the company (and its affiliates) are in receipt of benefits that are designed and intended to aid the rationalisation and structural adjustment for the forestry, pulp and paper industry as detailed in the Twelfth Five-Year Plan.

(iv) Nine Dragons

Nine Dragons Paper (Holdings) Limited ("Nine Dragons") is a privately-owned linerboard, corrugated, coated duplex, and printing and writing paper (including uncoated woodfree copy paper) company. The Nine Dragons Interim Report for 2016 acknowledges[18]:

> "China's economy experienced further comprehensively deepened reform under the "new normal" state, while transformation in a development process and restructuring have entered a key stage…….However, despite continuous economic downturn, packaging paper products are closely related to people's livelihood, together with **fast closure of outdated production capabilities in the industry and intensified consolidation of the market**…." (emphasis added).

The Group Chair Lady further added[19]:

> "Meanwhile, as governments at all levels require immediate actions to control environmental pollutions, strengthened efforts are seen across the nation in **the closure of outdated production capacities** in the packaging paper industry and stricter approval of new production capacities than before" (emphasis added).

The Nine Dragons report confirms the GOC's accelerated program for restructuring of the Chinese pulp and paper industry, to reduce the overcapacity position and limit the approval of new production capacities. New approvals will be limited to the large-scale operations, with investment supported by the GOC through selective policies targeting key industry players (e.g. Chenming Paper, Sun Paper, UPM, Nine Dragons, APP, etc).

At Note 16 to the 2016 Interim Accounts[20], Nine Dragons discloses its subsidy income for the six months ended 31 December 2015 as RMB 94.7M. For the same period in the previous year, the subsidy income was RMB 106.6M.

At Note 18, Nine Dragons discloses its income tax rates as follows[21]:

> "*The Group's subsidiaries in the PRC are subject to corporate income tax at the rate of 25% except that certain of these subsidiaries are entitled to* ***preferential rate of 15%*** *for the six months ended 31 December 2015 (six months ended 31 December 2014: same)*" (emphasis added).

Nine Dragons 2015 Annual Report disclosed subsidy income of RMB 148.8 M (2014: RMB 134.3 M). Certain subsidiaries also benefited from the reduced 15 per cent corporate tax rate in 2015 (also in 2014)[22].

Nine Dragons' disclosures confirm that the GOC is implementing its rationalisation and restructuring policies utilising subsidy incentives and concessional taxation benefits at an accelerated rate. The

[18] Nine Dragons Paper (Holdings) Limited 2016 Interim Report, P. 6.
[19] Ibid, P.8.
[20] Ibid, P.68.
[21] Ibid, P.70.
[22] Nine Dragons Paper (Holdings) Limited 2015 Annual Report, P 129, 134).

closure of outdated production capacities has not occurred voluntarily, with the GOC influencing and determining which entities will operate in the forestry, pulp and paper industry.

(v) Asia Symbol

The Asia Symbol pulp and paper product companies are members of the Royal Golden Eagle ("RGE") group of companies that includes Asia Symbol Shandong, the largest wood pulp producer in China. Asia Symbol Group includes four affiliated companies:

- Asia Symbol (Shandong) Pulp and Paper Co., Ltd;
- Asia Symbol (Guangdong) Paper Co. Ltd;
- Asia Symbol (Guangdong) Omya Minerals Co., Ltd; and
- Asia Symbol (Chongqin) Paper Co., Ltd.

Asia Symbol Shandong produces 1.89 million tons of wood pulp and 270,000 tonnes of paper board. The pulp is bleached hardwood kraft pulp. The company is a Sino-foreign joint venture, located in the Rizhao Economic-Technological Development Area, Shandong Province. Asia Symbol Shandong was previously known as Shandong APRIL SSYMB Pulp and Paper Co., Ltd. Also, the ownership of the 460,000 on fine paper production facility of APRIL Symbol Guangdong changed from foreign ownership to Sino-foreign joint venture.

Asia Symbol Shandong and Asia Symbol Guamgdong are independent companies with their own Board of Directors.

(vi) UPM Shandong

UPM Shandong's financial accounts are consolidated into its parent company UPM Kymmene's financial statements. Separate financial information concerning the economic performance of UPM Shandong is therefore not available. The company was established in 1998 and has a 450,000 tonne production capacity.

III Paper Industry subsidies

(i) GOC incentives

Historically, China attracted foreign companies by offering a reduced corporate tax rate of 15 per cent for companies established in China's Special Economic Zones. However, in 2008 China overhauled its tax regime and implemented a uniform 25 per cent tax rate on both foreign and domestic companies and abolished preferential land policies. As a result regional governments rolled out regional tax incentives (at the 15 per cent rate) in order to retain foreign investment in their region.

In December 2014, the Central Government released a circular letter requesting local governments to roll back regional tax incentives (including discounted land prices and utility prices) for foreign investors. Local governments were no longer permitted to offer regional tax incentives or preferential land treatment without consent from State Council. The GOC has shifted to providing compensation to companies to reduce capacity by eliminating production lines or pursuing new technology, along with assisting large integrated producers (i.e. APRIL, Sun Paper, Chenming, Yueyang, etc) with reductions in corporate tax rates (at 15 per cent) that reflect the GOC's intended rationalization and restructuring objectives for the forestry, pulp and paper industry.

(ii) Paper Industry incentives

Australian Paper understands that the GOC continues to offer select incentives tailored specifically to forestry, pulp and paper industry participants. The following provides a brief outline of the nature of the specific incentives.

1. **Preferential credit policy**

   - Imported paper equipment benefits from preferential credit policy;

- National Development and Reform Commission (NDRC), the Ministry of Finance and the Ministry of Commerce released "encouraging the import of technology and product list 2015", China Import and Export Bank then provides preferential import credit and interests for imported paper equipment.

2. **"Pulp and paper unit product energy consumption limits (standard # GB 31825-2015)"**

- Will take effect July 1st, 2016. Published by the General Administration of Quality Supervision, Inspection and Quarantine(AQSIQ) and National Standardization Management Committee in order to implement the most stringent regulation for the stake of environment protection and energy saving.

3. **Tax exemption policy**

- No tax exemptions other than renewable resource utilization;
- Paper production has exceeded consumption and exports since 2012, therefore eliminating capacity is the government's main task. The Government is providing compensation to companies who eliminate own production line and or pursuing new technology.

4. Green industry policy

- Since July 1 2015 waste water discharge conforms with "Discharge standard of water pollutants for pulp and paper industry" (standard # GB3544-2008) and taxpayer conforms "evaluation index system for cleaner production of pulp and paper industry" while pass ISO9000 ISO14000 certification, and 70% above product sourced from waste paper, , crop straw, the company can get 50% VAT refund when selling paper, pulp and crop straw pulp;
- Since July 1 2015 bagasse pulp and paper manufacturers and taxpayers that conform with "evaluation index system for cleaner production of pulp and paper industry" and 70% above product sourced bagasse, the company can get 50% VAT refund when selling bagasse pulp , chipboard and paper;
- Since July 1 2015, as long as 95% and above product sourced from waste material and crop straw etc., the company can get 70% VAT refund when selling cardboard paper.

Further company specific subsidies have been provided as follows:

- Chenming has been the biggest recipient of subsidies – received RMB 251 M in subsidies in 2015 up from 191 M in 2013.
  - Benefited from a number of subsidies – however specific value of subsidy is unknown
  - Huanggang Chenming Paper, received a RMB 104 M subsidy from Huanggang Regional Government in 2016 to support its pulp and paper project and establishment of facilities
- Sun Paper received RMB 55 M in 2015 for infrastructure installation
- Yeuyang also benefited from several subsidies including RMB 5 M for Tax exemption for Comprehensive utilization of renewable resources.

IV. Market Situation Conclusions

The Chinese paper industry has a lengthy history of extended GOC support, particularly since 2000. With the benefit of GOC support, the Chinese paper industry has increased output threefold since 2005 to more than 15 million tonnes per annum. The GOC has recognised the forestry, pulp and paper industry as a cornerstone industry to the Chinese economy and has provided industry participants with incentives to improve competitiveness relative to global pulp and paper producers that do not receive similar forms of assistance.

Australian Paper has demonstrated that the Chinese forestry, pulp and paper industry has been the subject of GOC policy initiatives including:

- Reductions/exemptions in corporate tax rates;
- Reductions/incentives in VAT and import tariff rates;
- Discounted interest rates from China's policy banks;
- Special grants intended for capital investment expenditure on new and upgraded facilities (whether raw material input production facilities, utilities, or pulp and paper facilities).

In recent periods (including 2015) the GOC's policy objectives have targeted the elimination of outdated production capacity. SMEs that are deemed inefficient are encouraged (compensated) to leave the industry, with the GOC targeting investment incentives to larger (including SOE entities) industry players to further expand pulp and paper production capacities.

The accelerated closure of outdated production facilities would not have occurred at the pace at which the GOC has required in its Twelfth Five-Year Plan. Paper industry participants have reported in published annual reports their commitment to delivering on the targeted objectives of the GOC. Similarly, the companies (both private and SOE) have disclosed the magnitude of GOC subsidies (i.e. grants) and tax concessions received that have aided the delivery of the GOC's stipulated reforms.

The GOC's intervention in the Chinese forestry, pulp and paper industry parallels the GOC intervention in the Chinese aluminium and steel industries as reflected in previous anti-dumping and countervailing investigations (Report No's 177, 183, 190, 198, 248 and 287). The impact of the GOC's policies renders the domestic selling prices for uncoated woodfree paper (i.e. copy paper) lower than they other wise would be but for this intervention. Consequently, a market situation for copy paper prevails in China and domestic selling prices are therefore considered unsuitable for normal value purposes under s.269TAC(1) of the *Customs Act*.

Australian Paper submits that normal values for copy paper manufactured in China must therefore be established under s.269TAC(2)(c) on a constructed cost basis, using the verified production costs of cooperative exporters and third country domestic market input costs for key raw material chemicals (calcium carbonate, caustic soda, titanium dioxide, coal) for integrated producers, and third country market pulp prices for non-integrated producers (as domestic pulp prices in China are rendered artificially low by the influence of integrated forestry and pulp producers that are benefactors of GOC support). The level of profit to be included in the constructed normal value must reflect the aggregate profit for the total pulp and paper (i.e. including non copy paper products) businesses of cooperative Chinese paper producers so that the recent low profit levels of copy paper activities does not form the basis of the profit level to be applied.