Australian Government
Department of Industry, Innovation and Science

Anti-Dumping Commission

INVESTIGATION 341

ALLEGED DUMPING OF A4 COPY PAPER

EXPORTED FROM

THE FEDERATIVE REPUBLIC OF BRAZIL, THE PEOPLE'S REPUBLIC OF CHINA, THE REPUBLIC OF INDONESIA AND THE KINGDOM OF THAILAND

AND

ALLEGED SUBSIDISATION OF A4 COPY PAPER

EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA AND THE REPUBLIC OF INDONESIA

VISIT REPORT - EXPORTER

INTERNATIONAL PAPER DO BRASIL LTDA. AND

INTERNATIONAL PAPER EXPORTADORA LTDA.

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT THE FINAL POSITION OF ANTI-DUMPING COMMISSION

August 2016

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BACKGROUND

1.1 Background

On 12 April 2016, following an assessment of an application for publication of a dumping duty notice and countervailing duty notice made by Paper Australia Pty Ltd, the Commissioner of the Anti-Dumping Commission (Commissioner) gave public notice of the decision to initiate an investigation in respect of A4 copy paper exported to Australia from the Federative Republic of Brazil (Brazil), the People's Republic of China (China), the Republic of Indonesia (Indonesia) and the Kingdom of Thailand (Thailand).

The Commissioner's consideration of the application and examination of the information the Commissioner considered relevant are detailed in *Anti-Dumping Commission Consideration Report No. 341*.

Following this initiation, the Commissioner wrote to International Paper do Brasil Ltda. (IPBR) and other exporters of A4 copy paper inviting them to cooperate with the investigation. On 27 May 2016, IPBR submitted a completed exporter questionnaire response (EQR) and relevant attachments.

The investigation period is 1 January 2015 to 31 December 2015.

2 COMPANY INFORMATION

2.1 General

The relevant entities are IPBR and International Paper Exportadora Ltda (IPEX), which are indirect subsidiaries of International Paper Company (IP). IP is a publicly traded (NYSE), global paper and packaging company headquartered in the USA.

IPBR produces and sells A4 copy paper directly to the domestic market in Brazil and to other countries.

IPEX exports A4 copy paper, produced by IPBR, to Australia and other countries.

The structural and commercial relationship between IPBR and IPEX is sufficiently close such that in the context of this investigation, IPBR and IPEX are considered to be a single exporter[1].

IPBR produces and sells a range of A4 copy paper types and has three manufacturing plants, all located in Brazil:

- Mogi Guaçu mill.
- Luiz Antonio mill.
- Tres Lagoas mill.

[1] Any reference in this report to IPBR, IPEX or "the exporter" is a reference to the same single exporter as described.

3 THE GOODS UNDER CONSIDERATION AND LIKE GOODS

3.1 The goods

IPEX exported several models considered to be the goods to Australia during the investigation period.

3.2 Like goods sold on the domestic market

The exporter submitted in its EQR that IPBR produced and sold goods domestically that are 'like' to those it exported to Australia.

3.3 Model matching

The predominant differentiating characteristic between models of the goods is gsm. Whiteness and brightness are considered not to be significantly different within the scope of the goods exported by IPEX and like goods sold on the domestic market by IPBR.

3.4 Like goods – preliminary assessment

The Commission has assessed that A4 copy paper that IBPR produced and sold domestically has characteristics closely resembling those of the goods IPEX exported to Australia and are 'like goods' in terms of subsection 269T(1) of the *Customs Act 1901* (the Act). [2]

[2] Any reference in this report to "the Act"; or a part, division, section or subsection, is in relation to the *Customs Act 1901* unless otherwise specified.

4 SALES TO AUSTRALIA

4.1 Completeness and relevance

In its EQR, the exporter provided a detailed spreadsheet listing its Australian export sales of A4 copy paper during the investigation period.

Due to subsequent identification of errors in values and calculations, the exporter submitted a revised listing prior to the verification visit and a further revised version at the verification visit.

The exporter advised that the audit of its 2015 financial statements had not been finalised and was therefore unable to provide audited financial statements relating to the investigation period. Instead, it provided, for both IPBR and IPEX, unaudited financial statements for the year 2015 and audited financial statements for the year 2014.

The Commission verified the completeness and relevance of information contained in the exporter's revised Australian sales list by reconciling it to IPEX's unaudited statement of profit or loss for the year ended December 31 2015 (unaudited 2015 P&L) in accordance with ADN 2016/30.

No other material issues were identified during the process of verifying the completeness and relevance of the exporter's revised list of export sales of A4 copy paper Australia.

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Appendix 1**.

4.2 Accuracy

The Commission verified the accuracy of information contained in the exporter's revised Australian sales list by verifying a sample of transactions to source documents in accordance with ADN 2016/30.

No material issues were identified during the process of verifying the accuracy of the exporter's revised list of export sales of A4 copy paper to Australia.

4.3 The exporter

IPBR and IPEX are considered to be the exporter[3] of the goods for all Australian sales during the investigation period. IPBR and IPEX, in the context of this investigation, are considered to be a single exporter as per section 2.1 of this report.

[3] The Commission generally identifies the exporter as a principal in the transaction, located in the country of export from where the goods were shipped, who gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or their own vehicle for delivery to Australia; or a principal in the transaction, located in the country of export, who owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

4.4 The importer

In relation to the goods exported to Australia, the Commission considers the single importer listed in the exporter's revised Australian sales list, being Jackaroo Paper Pty Ltd (Jackaroo), as the importer in terms of subsection 269T(1).

4.5 Related customers

The Commission considers that the exporter and Jackaroo are not associates of each other in terms of subsection 269TAA(4).

4.6 Arms length

In respect of the exporter's sales to Australia during the investigation period, the Commission found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

The Commission therefore considers that all the exporter's sales to Australia during the investigation period were arms length transactions as per section 269TAA.

4.7 Export price – preliminary assessment

In relation to the exporter's sales to Australia to Jackaroo, the Commission considers the export price to be determined under subsection 269TAB(1)(a), being the price paid or payable for the goods by the importer.

The export price has been determined at free on board (FOB) terms.

The preliminary export price calculations are in the dumping margin calculations at **Confidential Appendix 2**.

5 COST TO MAKE & SELL

5.1 Completeness and relevance

In its response to the EQR, the exporter provided quarterly cost to make and sell (CTMS) information for A4 copy paper it produced during the investigation period. This cost information was provided separately for the Australian and domestic markets, and separately for each model.

The Commission verified the completeness and relevance of the exporter's CTMS information by reconciling it the exporter's unaudited 2015 P&L in accordance with ADN 2016/30.

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Appendix 1**.

5.1.1 Exclusion of third party manufacture

The Commission noted that in some instances the exporter outsourced manufacture of some products to an unrelated third party paper manufacturer. While the cost of this manufacture was included in the financial statements, the Commission noted that the submitted CTMS information had excluded these costs. The Commission was satisfied that this exclusion was warranted as these costs related to a product that, although in the same general category of goods, was not 'like' to the goods exported to Australia.

5.1.2 Selling, general and administrative costs

In verifying the exporter's selling, general and administrative (SG&A) expenses submitted in its CTMS information, the Commission was satisfied that all relevant SG&A expenses were accurately accounted for in either IPBR's or IPEX's financial accounting system. The Commission did not however agree with the allocation methodology for SG&A between export and domestic sales that the exporter had proposed, particularly in regards to the allocation of general and administration costs.

The exporter proposed to allocate selling costs allocated from IPBR's unaudited 2015 P&L to gross sales for IPBR and, likewise, selling costs allocated from IPEX's unaudited 2015 P&L to gross sales for IPEX. The Commission agreed with this methodology for selling costs.

The exporter also proposed to allocate administrative and finance (G&A) costs for the combined IPBR and IPEX companies over the consolidated gross sales value for those companies. The Commission disagreed with this approach. The Commission considered the combined approach for G&A expenses unfairly over-represented G&A expenses for export sales and under-represented those for domestic sales.

The Commission therefore amended the SG&A allocations to reflect the expenses as recorded in IPBR's unaudited 2015 P&L in relation to domestic sales and the expenses as recorded in IPEX's unaudited 2015 P&L for export sales. This had the effect of increasing the amount for SG&A on domestic sales, therefore increasing the exporter's domestic CTMS. Correspondingly, this had the effect of decreasing the amount for SG&A

on export sales, therefore decreasing the exporter's export CTMS in all quarters for all models.

Taking into account of the revisions to the exporter's CTMS information, the Commission was satisfied that all other relevant costs were included.

5.2 Accuracy

The Commission verified the accuracy of the exporter's CTMS information by reconciling a sample to source documents in accordance with ADN 2016/30.

No material issues were identified during the process of verifying the accuracy of the exporter's CTMS information.

5.3 Related parties

The exporter advised that it makes purchases of tree seedlings (input to production) from a related supplier. The Commission considers the effect on the exporter's CTMS information not to be material.

The exporter also advised that it makes purchases of a material from another related supplier. The Commission also considers any effect of this on the calculation of normal value not to be material.

5.4 Cost to make and sell – summary

The Commission considers that the exporter's CTMS information is a reasonably complete, relevant and accurate reflection of the actual costs to make and sell A4 copy paper during the investigation period.

6 DOMESTIC SALES

6.1 Completeness and relevance

In its EQR, the exporter provided a detailed spreadsheet listing its Domestic sales of A4 copy paper during the investigation period.

Due to subsequent identification of errors in values and calculations, the exporter submitted a revised listing prior to the verification visit and a further two revised versions at the verification visit. During the verification, the Commission further requested a revised listing that separated amounts related to credit notes, which the exporter submitted.

The Commission verified the completeness and relevance of information contained in the exporter's revised domestic sales list by reconciling it to IPBR's unaudited 2015 P&L in accordance with ADN 2016/30.

No other material issues were identified during the process of verifying the completeness and relevance of the exporter's revised list of export sales of A4 copy paper Australia.

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Appendix 1**.

6.2 Accuracy

The Commission verified the accuracy of information contained in the exporter's revised domestic sales list by verifying a sample of transactions to source documents in accordance with ADN 2016/30.

No material issues were identified during the process of verifying the accuracy of the exporter's revised list of domestic sales of A4 copy paper Australia.

6.3 Related customers

The Commission did not identify any customers in the exporter's domestic sales list as being associates of the exporter in terms of subsection 269TAA(4).

6.4 Arms length

In respect of the exporter's domestic sales during the investigation period, the Commission found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

The Commission therefore considers that all the exporter's domestic sales during the investigation period were arms length transactions as per section 269TAA.

6.5 Ordinary course of trade

Section 269TAAD of the Act provides that if like goods are sold in the country of export in sales that are arms length transactions in substantial quantities during an extended period at a price less than the cost of such goods, and that it is unlikely that the seller of the goods will be able to recover the costs of such goods within a reasonable period, then the price for the goods is taken not to have been in paid in the ordinary course of trade (OCOT).

The Commission compared the net sale price for each domestic sale of A4 copy paper to the corresponding quarterly domestic CTMS for each model, to test whether the exporter's domestic sales were made in the OCOT.

Based on this comparison, the Commission considers that the exporter made domestic sales of like goods in the OCOT during the investigation period.

6.6 Suitability of domestic sales

Subparagraph 269TAC(2)(a)(i) provides that the normal value of goods exported to Australia cannot be ascertained under subsection 269TAC(1) where there is an absence, or low volume, of sales of like goods in the market of the country of export.

Low volume is defined by subsection 269TAC(14) as less than five per cent of the total volume of the goods under consideration that are exported to Australia. The Commission found there was a sufficient volume of comparable domestic sales of like goods made in the OCOT during the investigation period.

6.7 Domestic sales – summary

Based on the verification process undertaken, the Commission is satisfied as to the completeness, relevance and accuracy of the exporter's domestic sales information relating to A4 copy paper for the investigation period.

7 ADJUSTMENTS

To ensure fair comparison is made between the FOB export price and the normal value, the Commission has determined the following.

7.1 Marketing assistance

The exporter submitted, in its domestic sales list, amounts for marketing assistance. The Commission considers that marketing or advertising expenses often relate more to the general cost of business and generally are not grounds for adjustment. However, where the connection to the sale is established and evidence is suitable, adjustment may be allowed in certain circumstances such as where:

- the exporter pays advertising costs on behalf of its customer;
- the exporter reimburses the importer for advertising costs; or
- advertising and sales promotion expenses are exclusive to the goods in question.

Based on the information provided, the Commission considers that the amounts for marketing assistance in the exporter's domestic sales list, are exclusive to the goods in question. The Commission has therefore applied an adjustment to the normal value for marketing assistance associated with domestic sales of like goods.

7.2 Specification

The Commission has compared the exporter's models of the goods exported to Australia to its models of like goods sold on the domestic market in Brazil. Models have been matched basis of gsm, whiteness and brand. Where there was no directly comparable like model due to there being no domestic sales of 80 gsm models, the equivalent 75 gsm domestic model was used as a comparison with a specification adjustment made on the basis of difference between the weighted average export price of that model and the weighted average export price of the equivalent 75 gsm model. This is represented as a percentage and applied as an adjustment. For the three models that required a specification adjustment; the results were, depending on the model, either a downwards or an upwards adjustment to the normal value of the comparable like model.

7.3 Level of trade

The Commission identified that the exporter's Australian sales during the investigation period were solely to a distributer, Jackaroo. The exporter's domestic sales during the investigation period were made to both distributors and retailers.

The Commission considered that the domestic sales made to retailers be removed for the purpose of determining a normal value.

7.4 Packing

The Commission identified that the exporter's recorded packing costs are based on an amount per tonne. Each of the three production mills has a respective amount per tonne that has been applied in the same method to both Australian and domestic sales on a per tonne basis, depending on which mill the goods were shipped from.

The exporter advised that the packing materials and processes are generally the same for each mill and for both domestic and export goods, however, the costs are different for each mill.

Although packing costs have been applied in the same method for both Australian and domestic sales, the Commission noted that the weighted average packing expense per tonne for domestic sales is different to the weighted average packing expense per tonne for export sales. This difference is due to the fact that the goods sold to Australia originated from different mills.

The Commission's approach was to make an adjustment to the normal value by deducting the applied domestic packing cost and adding the weighted average export packing cost for the respective quarter.

7.5 Inventory carrying cost

The exporter provided evidence in the form of calculations of average inventory turnover days for both Australian and domestic sales which demonstrated a difference. The Commission was satisfied as to the reasonableness of that calculation. The exporter contended that an opportunity cost is incurred in the holding of inventories which is reflected in the price.

The Commission's approach was to make an adjustment to the normal value by deducting an amount for domestic inventory carrying cost and adding an amount for export inventory carrying cost.

The adjustment calculation is as follows:

$$Domestic\ inventory\ carrying\ cost = CTMS \times daily\ interest\ rate \times average\ turnover\ days\ (domestic)$$

$$Export\ inventory\ carrying\ cost = CTMS \times daily\ interest\ rate \times average\ turnover\ days\ (export)$$

The daily interest rate is the annual rate of return that the exporter receives on its cash investments, which are in banks in Brazil, divided by 365.

7.6 Inland transport

The Commission has added, to the calculated ex-works (EXW) normal value, an amount for inland transport to the port of export. This amount has been calculated as a weighted average amount per tonne for the respective quarter of sale based on the exporter's Australian sales information.

7.7 Handling

The Commission has added, to the calculated ex-works (EXW) normal value, an amount for handling at the port of export that applies to Australian sales. This amount has been calculated as a weighted average amount per tonne for the respective quarter of sale based on the exporter's Australian sales information.

7.8 Credit terms

The Commission identified that the credit terms differed between the exporter's Australian and domestic sales.

The Commission has therefore made an adjustment by deducting from the normal value, an amount for domestic credit and adding to the adjusted FOB normal value, an amount for export credit.

At the verification visit, the exporter provided a comparison between credit terms and actual days to payment on its sales to its major domestic customers. Based on an analysis of this information, the Commission considers that it is appropriate to use the credit terms on the invoice for calculating an amount for domestic credit, or where a number of instalment periods were provided on the invoice, the average of those. Similarly, the Commission has used the credit terms on the export invoice for calculating an amount for export credit.

The interest rate that the Commission has used in the calculation of an amount for credit is the daily interest rate used for the calculation of inventory carrying cost, as described in section 7.2 of this report.

7.9 Adjustments – summary

The Commission is satisfied that there is sufficient and reliable evidence to justify the following adjustments in accordance with subsection 269TAC(8).

Adjustment type	Application
Marketing assistance	**Deduct** the cost of domestic marketing assistance.
Specification	**Deduct/Add** difference (%) in price to account for difference in gsm.
Level of trade	**Remove** retail sales from normal value calculation data.
Packing - domestic	**Deduct** the cost of domestic packing.
Inventory carrying cost - domestic	**Deduct** the cost of carrying domestic inventory.
Credit cost - domestic	**Deduct** the cost of domestic credit.
Packing - export	**Add** the cost of export packing.
Inland trans - export	**Add** the cost of export inland transport.
Handling - export	**Add** the cost of export handling.
Inventory carrying cost - export	**Add** the cost of carrying export inventory.
Credit cost - export	**Add** the cost of export credit.

8 NORMAL VALUE

The Commission considers the normal value to be determined under subsection 269TAC(1), being the price paid or payable for like goods sold in the OCOT for home consumption in Brazil in sales that are arms length transactions by the exporter.

In using the exporter's domestic sales as the basis for normal value, the Commission considers that certain adjustments, in accordance with subsection 269TAC(8), are necessary to ensure fair comparison with export price.

The preliminary normal value calculations are in the dumping margin calculations at **Confidential Appendix 2**.

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9 DUMPING MARGIN

The Commission has calculated the dumping margin in accordance with subsection 269TACB(2)(a) of the Act, by comparing the weighted average of export prices over the whole of the investigation period with the weighted average of corresponding normal values over the whole of that period.

The dumping margin has been calculated as **5.7 per cent**.

Details of the preliminary dumping margin calculation are at **Confidential Appendix 2**.

10 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Verification Work Program
Confidential Appendix 2	Dumping Margin Calculation