PUBLIC RECORD

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Department of Industry, Innovation and Science

Anti-Dumping Commission

ADC 341

INVESTIGATION INTO ALLEGED DUMPING AND COUNTERVAILING 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

VERIFICATION REPORT - EXPORTER

PT INDAH KIAT PULP & PAPER TBK

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 THE ANTI-DUMPING COMMISSION

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1 BACKGROUND

On 12 April 2016, the Commissioner of the Anti-Dumping Commission (the Commission) initiated an investigation into the alleged dumping of A4 copy paper (the goods) 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) and the alleged subsidisation of the goods exported from China and Indonesia.

This investigation follows an application by Paper Australia Pty Ltd, a member of the Australian industry manufacturing like goods, for the publication of a dumping duty notice and the publication of a countervailing duty notice in respect of the goods exported from China and Indonesia.

Following initiation of the investigation, the Commission wrote to exporters of A4 copy paper, inviting them to cooperate with the investigation by responding to an exporter questionnaire.

PT Indah Kiat Pulp & Paper Tbk (Indah Kiat)[1] provided a complete response and relevant attachments to the exporter questionnaire for the period 1 January to 31 December 2015 (the investigation period).

[1] Indah Kiat is part of the Asia Pulp and Paper Group, which is a business division of the Sinar Mas Group.

2 THE GOODS AND LIKE GOODS

2.1 The goods exported to Australia

During the investigation period Indah Kiat exported A4 copy paper to Australia through two intermediaries.

The table below summarise the goods exported to Australia by Indah Kiat.

Product specifications	Photocopy paper
Product codes	[redacted]
GSM	[redacted]
Size	210 x 297 mm
Thickness	[redacted]
Density	[redacted]
Brightness	[redacted]
Whiteness	[redacted]

2.2 Like goods sold on the domestic market

During the investigation period, Indah Kiat also sold A4 copy paper to domestic customers in Indonesia through its related entity PT Cakrawala Mega Indah (CMI).

The table below summarise like goods sold on the domestic market (via CMI) by Indah Kiat.

Product specifications	Photocopy paper
Product codes	[redacted]
GSM	[redacted]
Size	210 x 297 mm
Thickness	[redacted]
Density	[redacted]
Brightness	[redacted]
Whiteness	[redacted]

2.3 Model matching

The verification team considers that the goods manufactured for domestic consumption are identical to, or have characteristics closely resembling, the goods exported to Australia as they:

- do not appear to be distinguished from the exported goods during production;
- are produced at the same facilities and with the same raw material inputs and manufacturing processes; and
- can be considered functionally and commercially alike.

For the purpose of model matching, the verification team considers that it is appropriate to have regard to product characteristics such as GSM, thickness, density, brightness and whiteness.

2.4 Like goods – preliminary assessment

The verification team considers that A4 copy paper produced by Indah Kiat for domestic sale have characteristics closely resembling those of the goods exported to Australia and are therefore 'like goods' in accordance with subsection 269T(1) of the *Customs Act 1901* (the Act).[2]

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[2] A reference to a division, section or subsection in this report is a reference to a provision of the *Customs Act 1901*, unless otherwise specified.

3 VERIFICATION OF EXPORT SALES TO AUSTRALIA

3.1 Verification of Australian sales to audited financial statements

The verification team verified the completeness and relevance of Indah Kiat's Australian sales listing by reconciling it to audited financial statements, sales reports and journals in accordance with Anti-Dumping Notice (ADN) No. 2016/30.

No payment of rebates on exports to Australia were identified by the verification team.

The verification team did not identify any issues during this process. Details of the verification are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.2 Verification of Australian sales to source documents

The verification team verified the accuracy of Indah Kiat's Australian sales listing by reconciling it to source documents in accordance with ADN No. 2016/30.

No payment of rebates on exports to Australia were identified by the verification team.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.3 Intermediaries

The verification team observed that during the investigation period, Indah Kiat exported A4 copy paper through intermediaries, including [redacted].

In this instance, the verification team considers that it is appropriate to determine the export price as the price received by Indah Kiat when selling to the unrelated intermediaries, in accordance with the Commission's current policy practice.[3]

3.4 The exporter

For all Australian export sales during the investigation period, the verification team considers Indah Kiat to be the exporter of the goods.[4]

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3 Refer Dumping and Subsidy Manual (November 2015), page 28.

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

3.5 The importer

In relation to A4 copy paper exported to Australia by Indah Kiat, the verification team considers that Paper Force (Oceania) Pty Ltd, as listed in the Australian sales listing, was the beneficial owner of the goods at the time of importation, and therefore was the importer of the goods.

3.6 Related customers

The verification team did not identify any Australian customers that might be related to Indah Kiat, based on the relevant responses to the exporter questionnaire, sales data and audited financial statements.

3.7 Arms length

In respect of Australian sales of A4 copy paper made by Indah Kiat during the investigation period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than their price; or
- the price was 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, was directly or indirectly reimbursed, compensated or otherwise received a benefit for, or in respect of, the whole or any part of the price.[5]

The verification team therefore considers that all export sales to Australia made by Indah Kiat during the investigation period were arms-length transactions.

3.8 Export price – preliminary assessment

The verification team is satisfied that the Australian sales listing is complete, relevant and accurate and recommends that the export price be determined under subsection 269TAB(1)(c), as the price that the Minister determines having regard to all the circumstances of the exportation.

The verification team's preliminary export price calculations are at **Confidential Appendix 1**.

5 Section 269TAA of the Act refers.

4 COST TO MAKE AND SELL

4.1 Verification of costs to audited financial statements

In its response to the exporter questionnaire, Indah Kiat provided monthly cost to make and sell (CTMS) data for [redacted] [describing the pulp] manufactured during the investigation period in addition to the CTMS data for A4 copy paper.

The verification team verified the completeness and relevance of Indah Kiat's CTMS data by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of the verification are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

4.2 Verification of costs to source documents

The verification team verified the accuracy of Indah Kiat's CTMS data by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of the verification are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

4.3 Integrated processes

In its response to the exporter questionnaire, Indah Kiat indicated that it manufactures the pulp used in the manufacture of A4 photocopy paper. Indah Kiat provided a separate CTMS spreadsheet that listed the costs relating to manufacturing [redacted] [describing the pulp].

The verification team was able to trace Indah Kiat's CTMS data for pulp down to the purchase of pulpwood used in the pulp making process. The verification team was able to verify the accuracy of Indah Kiat's CTMS data for pulp by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team was able to ascertain that pulp is transferred to the photocopy paper manufacturing division at actual cost, and therefore, the verification team is satisfied that the pulp costs (as part of the raw material costs) recorded in Indah Kiat's CTMS spreadsheet for A4 photocopy paper reflect the actual costs incurred.

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

4.4 Related party purchases

In its response to the exporter questionnaire, Indah Kiat provided a separate spreadsheet summarising its purchases of pulpwood / logs, pulp and chemicals over the investigation period. In this spreadsheet, Indah Kiat has identified its suppliers of the raw materials.

As requested by the verification team, Indah Kiat provided an updated raw material purchase spreadsheet listing purchase transactions of pulpwood, and included a separate column that identified related and unrelated suppliers (refer **Confidential Attachment 2**).

The verification team noted that Indah Kiat purchased pulpwood from related suppliers. Indah Kiat also purchased pulpwood from non-related suppliers.

Using the documentation collected during the visit and the information provided in the raw material spreadsheet, the verification team compared the unit prices paid by Indah Kiat to both its related and unrelated suppliers of pulpwood, and did not consider there was any evidence that Indah Kiat did not pay market prices to its related suppliers.

The verification team did not identify any additional pulpwood suppliers that might be related to Indah Kiat, based on the company's response to the exporter questionnaire and documentation supplied for the purpose of verification.

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

4.5 Cost to make and sell – summary

Having verified Indah Kiat's CTMS data for A4 copy paper (and Indah Kiat's CTMS data for pulp) to audited financial statements and to source documents, the verification team is satisfied that Indah Kiat's CTMS data is complete, relevant and accurate.

5 VERIFICATION OF DOMESTIC SALES

5.1 Verification of domestic sales to audited financial statements

The verification team verified the completeness and relevance of Indah Kiat's domestic sales listing by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of the verification are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

5.2 Verification of domestic sales to source documents

The verification team verified the accuracy of Indah Kiat's domestic sales listing by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of the verification are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

5.3 Related customers

The verification team identified that Indah Kiat's major domestic customer, CMI, is related to the company.

The verification considers that CMI is an intermediary through which Indah Kiat's sells like goods on the domestic market.

5.4 Arms length

In respect of domestic sales of A4 copy paper made by Indah Kiat to CMI, a related customer in the domestic market, the verification team found evidence that:

- the price was influenced by a commercial relationship between CMI and Indah Kiat; and
- CMI was indirectly reimbursed for, or in respect of, the whole or any part of the price.

The verification team therefore considers that all domestic sales by Indah Kiat to CMI during the investigation period were not arms-length transactions.

Given that CMI on-sold like goods manufactured by Indah Kiat to unrelated customers in the domestic market, the verification team considers that these sales are arms-length transactions and can be used to ascertain the normal value.

The verification team verified the completeness, relevance and accuracy of CMI's domestic sales listing by reconciling it to audited financial statements and source documents in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of the verification are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

5.5 Ordinary course of trade

Section 269TAAD provides that if like goods are sold in the country of export at a price less than the cost of such goods, and are unrecoverable within a reasonable period, then they are taken not to have been sold in the ordinary course of trade (OCOT).

The verification team compared the revenue (i.e. net sales value) for each domestic sale of A4 copy paper to the corresponding quarterly domestic CTMS to test whether those sales were profitable.

Where the volume of unprofitable sales exceeded 20 per cent for a particular model, the verification team tested the recoverability of the unprofitable sales by comparing the revenue for each transaction to the corresponding weighted average CTMS over the investigation period. Those sales found to be unrecoverable were considered not to be in the OCOT.

5.6 Suitability of domestic sales

Subsection 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 5 per cent of the total volume of the goods under consideration that are exported to Australia. The verification team found there was a sufficient volume of domestic sales made in the OCOT for all models of A4 copy paper exported to Australia during the investigation period.

5.7 Domestic sales – summary

The verification team is satisfied that CMI's domestic sales listing is complete, relevant and accurate, and can be used for assessing normal value under subsection 269TAC(1).

The domestic sales listing is at **Confidential Appendix 3**.

6 ADJUSTMENTS

To ensure the normal value is comparable to the export price of goods exported to Australia at FOB terms, the verification team has considered the following adjustments in accordance with subsection 269TAC(8).

6.1 Credit terms

The verification team considers that a downward adjustment to the normal value for domestic credit terms is necessary to ensure a fair comparison to the export price.

6.2 Inland transport

The verification team considers that a downwards adjustment to the normal value for domestic inland transport is necessary to ensure a fair comparison to the export price.

6.3 Distributor margin

The verification team has found that prices to domestic customers are influenced by a fixed margin taken by an intermediary (CMI) involved in the domestic sales transactions. Specifically, CMI applied a fixed sales margin to all domestic sales.

The verification team considers that a downward adjustment to the normal value for the fixed margin is necessary to ensure a fair comparison to the export price.

6.4 Adjustments – conclusion

The verification team is satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with subsection 269TAC(8) of the Act, and considers these adjustments are necessary to ensure a fair comparison of normal values and export prices:

Adjustment Type	Deduction/addition
Domestic credit	**Deduct** the cost of domestic credit
Domestic inland transport	**Deduct** the cost relating to domestic inland transport
Distributor margin	**Deduct** the fixed distributor margin applied to domestic sales

The verification team's preliminary adjustment calculations are included in normal value calculations at **Confidential Appendix 3**.

7 NORMAL VALUE – PRELIMINARY ASSESSMENT

The verification team is satisfied that it found sufficient volumes of domestic sales of A4 copy paper, for all models exported to Australia, that were arms-length transactions and at prices that were within the OCOT. The verification team is therefore satisfied that the prices paid in respect of domestic sales of A4 copy paper are suitable for assessing normal value under subsection 269TAC(1).[6]

In using domestic sales as a basis for normal value, the verification team considers that certain adjustments, in accordance with subsection 269TAC(8), are necessary to ensure fair comparison of normal values with export prices, as outlined in Section 6 of this report.

The verification team's preliminary normal value calculations for Indah Kiat are at **Confidential Appendix 3**.

[6] Given that CMI on-sold A4 copy paper manufactured by Indah Kiat, CMI's domestic sales were used in determining normal value.

8 PRELIMINARY DUMPING MARGIN

The dumping margin has been assessed by comparing quarterly weighted average Australian export prices to the corresponding weighted average normal values for the investigation period, in accordance with subsection 269TACB(2)(a) of the Act.

The preliminary dumping margin in respect of A4 copy paper exported to Australia by Indah Kiat for the investigation period is **negative 1.4%**.

The preliminary dumping margin calculation is at **Confidential Appendix 4**.

9 SUBSIDIES

9.1 Provision of standing timber for less than adequate remuneration

In its response to the exporter questionnaire, Indah Kiat provided a spreadsheet listing its purchases of pulp wood logs during the investigation period.

The verification team verified the completeness, relevance and accuracy of Indah Kiat's log purchases listing by reconciling it to audited financial statements and source documents in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of the verification are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

9.2 Tax incentive for capital investment

The verification team found that Indah Kiat was eligible for tax incentives relating to new capital investment.

Referred to as "income tax facilities for capital investment in certain business fields and/or certain regions," the incentive allows for a reduction in taxable income and accelerated depreciation on tangible assets and amortisation for industries and regions identified at Appendix 1 and Appendix 2 of Government of Indonesia Regulation No. 18, year 2015. The "papers and papers goods industry" is identified at Appendix 2 as an eligible industry, and includes the pulp industry and commercial paper industry. As stipulated in Appendix 2, the eligibility requirement relating to the paper and paper goods industry is that the company seeking this tax incentive has to be an integrated paper and paper goods manufacturer. Indah Kiat is an integrated manufacturer of paper and paper goods.

Indah Kiat provided documentation relating to its 2015 taxable income and the adjustments to taxable income relating to the tax incentive. The verification team was able to verify this up to audited financial statements.

Indah Kiat claimed that it did not receive any benefit from the tax incentive because it did not pay any income tax due to tax losses incurred and carried forward from previous financial years.

9.3 Grants and other assistance programs

In its response to the exporter questionnaire, Indah Kiat declared that it did not receive any government benefits under any assistance programs during the investigation period.

At the verification visit, the verification team requested, and Indah Kiat provided, a copy of its non-operating income ledger for the investigation period, which reconciled to its annual financial statements.

The verification team did not identify any payments received from any level of government in Indonesia.

10 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Australian sales
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Domestic sales and normal value
Confidential Appendix 4	Dumping margin
Confidential Attachment 1	Verification work program, with attachments
Confidential Attachment 2	Raw material purchases