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Director Operations 4
Anti-Dumping Commission
GPO Box 1632
Melbourne VIC 3001

Investigation into alleged dumping of A4 Copy Paper exported from Brazil

Dear Director,

This submission is made on behalf of International Paper do Brasil Ltda. ("IP Brasil") in response to the Anti-Dumping Commission's ("Commission") preliminary findings outlined in the IP Brasil exporter verification report and associated calculation worksheets. In summary, IP Brasil disagrees with the approach adopted by the verification team in determining normal values for the "[redacted]" private brand exported to Australia, as the domestic market generally and the particular domestic products relied upon for establishing normal values, possess characteristics which do not allow for a proper comparison with the goods exported.

The purpose of this submission then is to explain and highlight the different characteristics evident between the like goods sold on the Brazil domestic market and the exported goods sold to Australia, and how these characteristics affect the selling prices of the products sold in each market. As a consequence, IP Brasil contends that these clearly identifiable characteristics result in differences which affect the price comparability of the export price and normal values, and as such, the determined normal values do not allow a proper comparison with the corresponding export prices.

IP Brasil requests the Commission to have regard to the information contained in this submission and reconsider the method and/or domestic like products used for determining normal value comparable to the goods exported to Australia.

Characteristics of goods exported to Australia

As noted by Australian Paper in its application[1]:

> *In the Australian market, the predominant sheet size and basis weight is A4, 80 gsm. The old imperial sheet sizes have fallen out of use. As well as the 80gsm weight which dominates*

[1] EPR 341; Record no. 001; Page 12.

> *the Australian market, some 70gsm, 75 gsm, 90 gsm and 100gsm is used together with small amounts of heavier weights used for special purposes.*

IP Brasil's exports of A4 copy paper during the investigation period is consistent with the market structure outlined by Australian Paper, with approximately [redacted]% represented by 80gsm products and the remainder being 75gsm. Of the 80gsm exports, [redacted]% relates to the [redacted] private label. As such, this submission will predominantly focus on the characteristics of this particular product and the verification team's approach to establishing a corresponding normal value.

The table below provides an overview of the physical characteristics and brand type for each of the goods exported during the investigation period. In terms of the physical characteristics, the key difference is observed between the 75gsm and 80gsm, with only negligible variances in other characteristics such as thickness, density, brightness and whiteness.

[CONFIDENTIAL TABLE REDACTED]

Importantly, IP Brasil's Australian exports of A4 copy paper included only private label products. This is considered relevant as IP Brasil does not promote or market these private label products such as [redacted] in Australia. The [redacted] product is a [redacted] private label sold in the business-to-business ("B2B") market segment. It is widely accepted and agreed that there is little brand recognition or commercial value attached to brands in this segment. This is supported by statements made by Australian Paper in its previous A4 copy paper dumping application[2]:

> *Private label and generic products are sourced from alternative manufacturers (Australian and overseas) and are treated as more of a commoditised product.*

As such, there is no premium or commercial value attached to IP Brasil's export sales of the [redacted] private label, as brand recognition is not evident in the private and generic labels generally sold in Australia.

Characteristics of domestic like goods

By contrast and as explained to the verification team in great detail, the domestic market for A4 copy paper in Brazil is vastly different to the Australian market as it is predominantly supplied with 75gsm proprietary branded products, with negligible sales of 90gsm and private label products. Importantly, as there is no demand for 80gsm products in Brazil, there were no such sales made by IP Brasil during the investigation period.

The table below highlights all of the like products sold by IP Brasil during the investigation period, identifying whether they are proprietary or private labels and outlining each of their physical characteristics. Unlike the private labels exported to Australia and sold domestically, IP Brasil does heavily promote and market its own proprietary products on the domestic market, and as demonstrated later in this submission, the brand recognition associated with its "[redacted]", "[redacted]" and "[redacted]" brands attaches a premium and higher commercial value compared to private label domestic selling prices.

[2] EPR 225; Record no. 034; page 15.

[CONFIDENTIAL TABLE REDACTED]

It is also important to explain that IP Brasil's reported cost codes are simply a reflection of the different production recipes used to achieve the specific characteristics highlighted above, and not as the verification team appears to have understood, representative of different products or "models". For example, cost code [redacted] corresponds to two different proprietary branded products, "[redacted]" and "[redacted]" which have identical physical properties as they are produced from the same recipe. Likewise, cost code [redacted] corresponds to two different proprietary branded products, "[redacted]" and "[redacted]", which have identical physical properties.

It is important to note that whilst both [redacted] and [redacted] produce 75gsm products from different recipes resulting in slightly different whiteness levels, both are used to sell the "[redacted]" proprietary branded product. This to some extent confirms the verification team's preliminary assessment[3] that:

> *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.*

In addition, it is important to highlight that the products manufactured according to cost codes [redacted] and [redacted] are identical in all respects as they are produced from identical recipes. The reason for the different cost codes is simply a legacy issue, [redacted].

This is a particularly important issue as the verification team appears to have formed the view that products assigned to cost code [redacted] are the most like and most comparable to the [redacted] exported goods. However, as demonstrated in the table above and reported in the domestic sales listing, products assigned to cost codes [redacted] and [redacted] possess <u>identical</u> physically properties. The only differences that exist between them are the branding of the various products, with the "[redacted]" private label brand being the only comparable like product to the exported 75gsm and 80gsm private labels.

<u>Brand recognition</u>

As explained above then, the two key characteristics that contrast between the [redacted] product exported to Australia and the vast majority of domestically sold like goods are i) brand type and ii) gsm. It is critical that the Commission properly understand the importance and impact of brand recognition on the commercial value of the various like goods sold on the domestic market in Brazil. The impacts of brand recognition are also evident on the Australian market and provide an understanding of the likely impact that brand has on price comparability between IP Brasil's exported [redacted] product and domestically sold proprietary branded products.

i) <u>Australian market</u>

[3] EPR 341; Record no. 056; page 5.

It is worth first highlighting the views of Australian Paper which support IP Brasil's position that proprietary branded products generally trade at a premium to private and generic labelled products due to the added promotional and marketing activities associated with proprietary brands. In its previous application for the imposition of dumping duties against A4 copy paper exported from China[4], Australian Paper stated:

> *The Australian market for cut sheet paper has dynamics that can be characterised as follows:*
>
> - *A high volume commodity market with little readily discernible differentiation other than price.*
> - *"Brand recognition" effects relate primarily to Australian Paper's REFLEX® brand which has been regularly promoted on mass media since 1984;*

It also explained[5]:

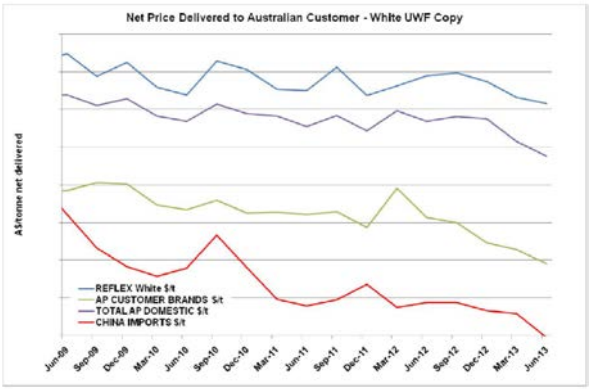
> *Where the goods are wrapped and sold in the manufacturer's brand and are heavily promoted, e.g. Australian Paper's 'REFLEX®' brand, there is some short term decoupling of price, but ultimately the end consumer will switch based on the trade-off between price, service and reputation.*

Following the Commission's verification visit to Australian Paper in that previous investigation, the Commission's verification report[6] noted that:

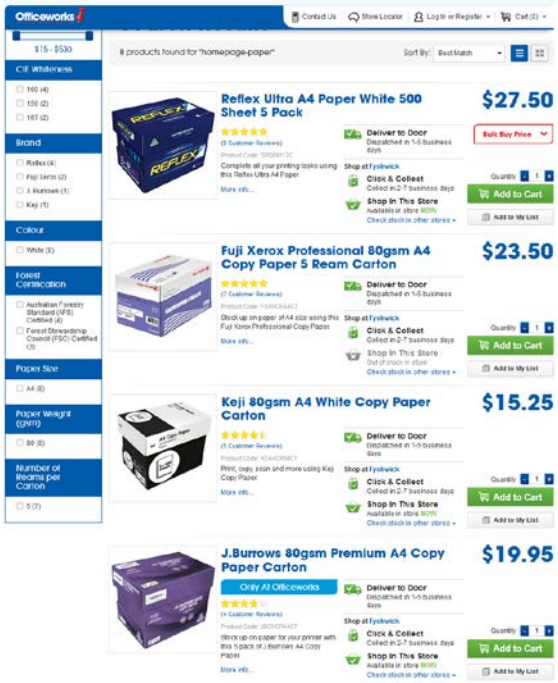
> *Australian Paper submitted that there are three categories of product (all interchangeable in a functional sense):*
>
> - *Manufacturers brands (eg REFLEX®, Australian®, AA, Paper One) Private label products*
> - *Plain label copy papers or generic products (targeted largely at the industrial market)*
>
> *[Details of Australian market]*
>
> *Both private label and generic products are sourced from alternative manufacturers on a contract basis.*
>
> *Australian Paper segregates the market for its own products into two separate markets – REFLEX® and other brands.*

Australian Paper's application[7] highlighted this clear segregation and difference in price between its own proprietary Reflex product and those of other brands in the chart below, which shows that the net unit price of its proprietary Reflex brand sells at a significant premium to its customer branded products.

[4] EPR 225; Record no. 001; page 17.
[5] Ibid; page 14.
[6] EPR 225; Record no. 025; page 16-17.
[7] EPR 225; Record no. 001; page 25.



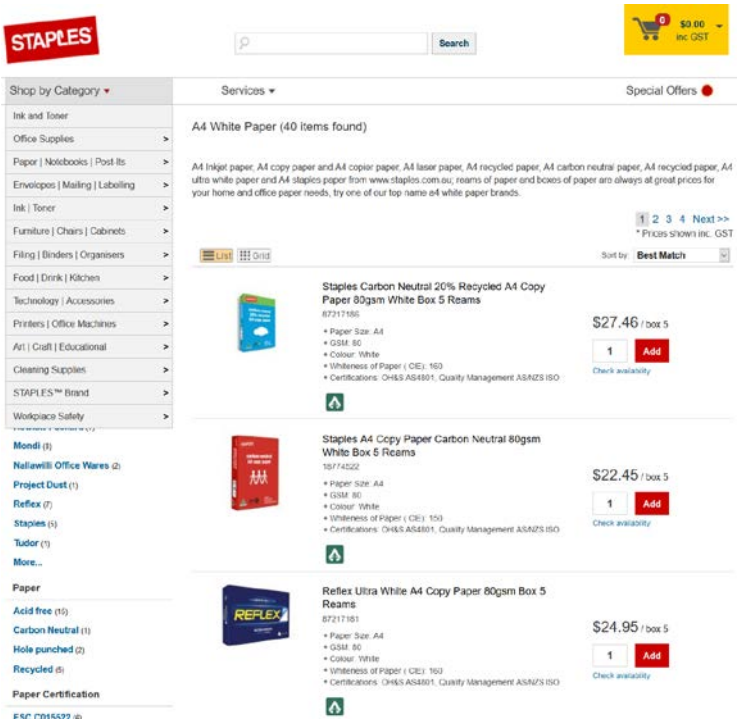
To further highlight the effects of branding on price, IP Brazil provides the Commission with some clear examples from the Australian market where material price variances exist between products with generic labels, private labels and proprietary labels. As is evident from current published prices by the retailer Officeworks[8], Australian Paper's proprietary Reflex brand sells at a 17% premium over the Fuji Xerox private label, 38% premium over Australian Paper's self-produced 'J.Burrows' generic brand and 80% above its self-produced generic 'Keji' brand. Whilst these reflect retail prices to consumers, it is understood that similar price disparities exist when comparing prices to retailers.



Similar price differences exist at the B2B segment of the Australian market with Australian Paper's Reflex brand being sold at approximately a 11% premium to its self-produced Staples private label[9].

[8] http://www.officeworks.com.au/shop/officeworks/c/paper/a4-copy-paper/a4-copy-paper-80gsm

[9] http://www.staples.com.au/main-catalogue-browse/paper-notebooks-post-its/white-paper/a4-white-paper/



This evidence demonstrates and supports the view that brand recognition is a factor that is evident in the Australian market, and found to significantly impact on prices and price comparability.

ii) Brazil market

Like the Australian market, proprietary brands generally sell at a premium to private labels in the Brazilian domestic market. A key difference being that unlike Australian Paper which only has its Reflex brand, IP Brasil has [redacted] different proprietary branded products with each reflecting a perceived difference in grade/quality and as such a different price point.

To demonstrate the price differences between proprietary and private label products sold domestically, IP Brasil has compared net selling prices taken from the domestic sales listing verified by the Commission, across the range of products sold to [redacted] which includes all of the products assigned to cost code [redacted] including [redacted] own private label product. The chart below demonstrates that "[redacted]" and "[redacted]" sell at a clear and significant premium to [redacted] private label and IP Brasil's standard proprietary label "[redacted]". The data confirms that monthly weighted average net unit selling prices of "[redacted]" ranged between [redacted]% - [redacted]% higher than corresponding prices of [redacted] private label.

Similar and consistent price trends are evident across IP Brasil's domestic sales to other distributor customers.

[CONFIDENTIAL CHART REDACTED]

To understand the impact of these price differences on the preliminary dumping margin, [redacted]% of the domestic sales used to establish the normal value and compare with the export private label products are represented by the premium proprietary brands of [redacted] and [redacted]. It is also important to note that all three proprietary brands and the [redacted]

private label possess identical physical properties as they are all produced from the same recipe. Therefore, the only distinguishing differences between the each of them is the brand, which confirms that brand recognition is directly linked to price variations in domestic sales.

Finally, IP Brasil also wishes to highlight that the verification team has excluded [redacted] domestic sales from its normal value determinations even though they are identical to [redacted], [redacted] and [redacted] private label. The verification team's reasoning for this decision is that it was not considered the most comparable to the goods exported. IP Brasil strongly disagrees with this view as the information presented to the Commission clearly shows that other domestic products were identical to those products considered most comparable.

In its view the products most comparable to the exported private label products is the [redacted] private label sold domestically as it is not affected by the brand recognition evident in the prices of [redacted] and [redacted]. [redacted] and [redacted] are considered the next most comparable as they are promoted as IP Brasil's everyday standard A4 copy paper which compete directly with [redacted] private label.

Findings by the verification team

IP Brasil disagrees with the verification team's findings on the question of the most comparable domestic like products to the exported [redacted] product, and considers the like goods assessment undertaken to be flawed and deficient. As highlighted earlier, the verification team concluded that:

> *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.*

IP Brasil agrees that the key differentiating physical characteristic between the goods exported and domestic like goods is gsm. As explained earlier in this submission, this essentially reflects that 80gsm is the predominant product in the Australian market and 75gsm the predominant product in the Brazilian market. Although importantly there is no demand and no sales for 80gsm product in Brazil, whereas 75gsm product is supplied in Australia.

For this reason, IP Brasil does not consider the approach of quantifying the specification adjustment by adjusting domestic sales of 75gsm on the basis of price differences between exported 75gsm and 80gsm products, to be reasonable. It assumes as a default position that observed differences between export prices into the Australian market will be replicated on the Brazilian domestic market. This is an incorrect assumption by the verification team. As explained by IP Brasil during the verification visit in response to questions by the verification team, if 80gsm products were sold on the domestic market in Brazil, they would sell at a significant discount to the 75gsm domestic products as there is simply no demand for 80gsm products.

For this reason, IP Brasil does not consider that differences in gsm and the resulting effect on domestic selling prices, are able to accurately and reasonably be quantified in the absence of a viable market for 80gsm product in Brazil. As explained, contrasting market characteristics between the Brazil and Australia markets does not allow for observed prices differences of the

exported goods sold to Australia, to adequately explain or address the differences likely to be observed on the Brazil domestic market.

Of greater concern to IP Brasil is the verification team's decision to rely only on domestic sales assigned to a particular cost code for establishing a normal value for the exported [redacted] product and the lack of reasoning and facts to justify this approach. As explained by the verification team, the specification adjustment was made by comparing the 80gsm exported goods to the most like 75gsm exported model which was cost code [redacted]. For this reason, the verification team considered that domestic sales assigned to cost code [redacted] were then most like to the 80gsm exported goods, as '*the export* [redacted] *is considered to be identical to the domestic* [redacted]'[10].

As highlighted earlier in this submission and summarised below, the verification teams view that export and domestic sales of [redacted] are identical is clearly not correct. Domestic cost code [redacted] includes the following three products:

i) [redacted];
ii) [redacted]; and
iii) [redacted].

Firstly, as highlighted in "Exhibit A-3.10 – Product catalogue" of IP Brasil's questionnaire response, domestic sales of "[redacted]" are sold in [redacted] packs and on a per tonne basis, sell for a significant premium to all other domestic products due to the significant costs associated with the additional packaging, when compared to the [redacted] packs of other domestic and export products. Given that this product represents [redacted]% of [redacted] sales, the inclusion of "[redacted]" domestic sales in the weighted normal value without proper adjustment for differences in packaging expenses leads to the normal value being overstated.

Second, the 75gsm exported product assigned to [redacted] and relied upon by the verification team is a [redacted] private label product, whereas [redacted]% of the domestic products assigned to [redacted] are proprietary products ("[redacted]" and "[redacted]" accounting for [redacted]% and [redacted]% respectively). As demonstrated and highlighted in the price comparisons at Confidential Appendix A, these two proprietary products sell at a significant premium to the [redacted] private label product "[redacted]" assigned to [redacted], ranging from [redacted]% to [redacted]% in the case of "[redacted]" and [redacted]% - [redacted]% in the case of "[redacted]". As the evidence demonstrates that the type of branding has a direct and significant impact on corresponding selling prices, it is clear that price comparability has been affected by the verification team's decision to compare export prices of private label products with domestic selling prices of proprietary label products.

Therefore, IP Brasil submits that the additional packaging costs associated with "[redacted]" being sold in [redacted], and the brand recognition associated with IP Brasil's proprietary label "[redacted]", identifies clear factors and characteristics which demonstrate observable

[10] Email correspondence; 10 August 2016.

and quantifiable differences with the [redacted] domestic private label and [redacted] exported private label.

In these circumstances, IP Brasil considers that if the Commission continues to hold the view that [redacted] is the most comparable cost code to the 80gsm products exported to Australia, then only the domestic product "[redacted]" provides a proper comparison as it is sold in the same pack size as the exported goods and is not affected by the brand recognition associated with IP Brasil's proprietary labels. Alternatively, the Commission is required to make relevant and necessary adjustments for these identified differences which are demonstrated to affect price comparability between the normal value and export price.

IP Brasil also wishes to highlight that the verification team appears to have overlooked the fact that domestic products assigned to cost codes [redacted] and [redacted] are physically identical as they are produced from the same recipe and all possess identical physical characteristics. As such, given the verification team's view that domestic cost code [redacted] was most comparable to export cost code [redacted] due to similarities in reported physical characteristics, it stands to reason that all products identical to those assigned to [redacted] are most comparable to the exported goods.

However, in response to further clarification on their reasons for not relying on these other identical products, the verification team advised that '*[i]n the absence of a* [redacted] *export model, the Commission has only applied the adjustment to the equivalent domestic model that the adjustment is based on.*'[11] This confirms that the verification team simply identified "models" on the basis of the cost codes and not the physical characteristics of the individual products sold on both the domestic and export markets.

In IP Brasil's view then and on the basis of the verification team's finding that '*the predominant differentiating characteristic between models of the goods is gsm*' and that other characteristics such as whiteness and brightness were not significant, the verification team were compelled to base their normal value on all like goods with 75gsm, or at the very least all identical products sold domestically which were most comparable to the exported goods. As noted by the verification team, this would include all products assigned to cost codes [redacted] and [redacted].

Conclusion

As demonstrated through this submission, the findings and reasoning of the verification team to base the normal value for exports of [redacted], on predominantly premium proprietary labelled products "[redacted]" and "[redacted]", are fundamentally flawed as it does not allow for a proper comparison. Factors that are demonstrated to impact domestic selling prices such as brand recognition in the case of "[redacted]" and pack size in the case of the [redacted] packs for "[redacted]", also affect the price comparability of the export prices and normal values and as such, due allowance is required to be made to ensure a proper comparison is achieved.

[11] Ibid.

IP Brasil contends that the most comparable product sold on the domestic market is the [redacted] private label, which directly compares to the exported 75gsm [redacted] private label and 80gsm [redacted] private label.

In the event that the Commission considers that gsm is the predominant physical characteristic that determines price, then there can be no justification for establishing normal values on the basis of [redacted] and [redacted] proprietary products only. All 75gsm products containing identical physical properties to [redacted] and [redacted], must be considered relevant and comparable to the goods exported, and included in the normal value determination.

IP Brasil requests the Commission to have regard to this submission and reconsider the preliminary findings of the verification team outlined in the verification report. IP Brasil also requests a meeting with the Commission to further discuss and clarify the points raised in this submission to ensure that the issues are properly understood and allow the opportunity to address any supplementary questions or queries that the Commission may have after reviewing the submission.

Yours sincerely

John Bracic