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

REPORT - AUSTRALIAN INDUSTRY

PAPER AUSTRALIA PTY LTD

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September 2016

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ABBREVIATIONS

$	Australian dollar
ADN	Anti-Dumping Notice
AP	Australian Paper
ASIC	Australian Securities & Investments Commission
Brazil	Federative Republic of Brazil
CFR	Cost and freight
China	The People's Republic of China
COGS	Cost of goods sold
Commissioner	Anti-Dumping Commissioner
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
DIP	De-inking plant
EBIT	Earnings before interest and tax
FXRTWI	Trade weighted index
FXRUSD	US dollar
GOC	Government of China
GOI	Government of Indonesia
gsm	Grams per square metre
Indonesia	The Republic of Indonesia
NIP	Non-injurious price
NPI	Nippon Paper Industries Co. Ltd
Paper Australia	Paper Australia Pty Ltd
R&D	Research and development
SEF	Statement of essential facts
Thailand	The Kingdom of Thailand
the Act	*Customs Act 1901*
the applicant	Australian Paper Pty Ltd
the Commission	Anti-Dumping Commission
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
USP	Unsuppressed selling price

1 BACKGROUND AND PURPOSE

1.1 Background

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

The investigation was initiated after the consideration of an application lodged by Paper Australia Pty. Ltd. The name 'Australian Paper' (abbreviated 'AP') is used as a business or trading name for Paper Australia Pty Ltd (AP). The background relating to the consideration of this application is contained in Consideration Report No. 341.[1] Anti-Dumping Notice (ADN) No. 2016/33[2] provides further information in relation to the initiation of the investigation.

1.2 Visit to Australian Industry

As part of the Commission's investigation, AP's application and attachments were verified for accuracy and reliability in so far as they related to AP's company and financial information, production processes and cost to make and sell (CTMS) for the like goods. As part of this verification the Commission visited AP's production facilities in Maryvale, Victoria, and corporate offices situated in Mount Waverley, Victoria.

The purpose of the visits were to also:

- obtain general information about the Australian market for A4 Copy Paper;
- gain a greater understanding of the company's manufacturing, marketing and distribution processes;
- obtain additional financial data about claimed injury to the Australian industry; and
- gather information relevant to assessing whether the allegedly dumped imports have caused material injury to the Australian industry.

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[1] See record no. 3 on the electronic public record (EPR), which is accessible at www.adcommission.gov.au.

[2] See record no. 4 on the EPR

2 THE AUSTRALIAN INDUSTRY AND LIKE GOODS

2.1 Australian Industry

AP stated in its application that since mid-2010 it has been the sole Australian producer of A4 copy paper in Australia. The Commission is not aware of any other producer of A4 copy paper in Australia.

2.2 Company Background

AP is an Australian proprietary company, limited by shares, and registered with the Australian Securities and Investments Commission (ASIC).

AP is a wholly owned subsidiary of Nippon Paper Industries Co. Ltd (NPI) registered in Japan.

AP's operations comprise a number of business units, each with its own functionality, spanning manufacturing, production and sales. They are vertically integrated in the manufacture of pulp, paper, envelopes and stationery.

2.3 Manufacturing facilities and Production Process

AP's manufacturing facilities relevant to A4 copy paper production are situated at its Maryvale mill. The Maryvale mill is located in the Gippsland region of Victoria and commenced operations in 1937.

During the course of the verification, the Commission undertook an inspection of the manufacturing facility and is satisfied that at least one substantial process in the manufacture of the goods is carried out in Australia.

During the verification, AP provided further information in relation to its copy paper production process, its production facilities at Maryvale, and financial systems. These documents are contained in **Confidential Attachment 1.**

2.4 Annual turnover, Capacity and Employment numbers

AP provided information relating to its annual turnover, employment numbers and production capacity. These documents are contained in **Confidential Attachment 2.**

2.5 Like goods (commercial, physical, functional, production)

The goods the subject of the application (the goods) are:

> *uncoated white paper of a type used for writing, printing or other graphic purposes, in the nominal basis weight range of 70 to 100 gsm and cut to sheets of metric size A4 (210mm x 297mm) (also commonly referred to as cut sheet paper, copy paper, office paper or laser paper)*.

In its application, AP provided the following further details in relation to the goods:

> *The paper is not coated, watermarked or embossed and is subjectively white. It is made mainly from bleached chemical pulp and/or from pulp obtained by a mechanical or chemi-mechanical process and/or from recycled pulp.*

Like goods are defined under Section 269T(1) of the Act as:

> *Goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration.*

AP provided information on the physical, commercial, functional and production likenesses between imported A4 copy paper and A4 copy paper manufactured by Australian industry. This is detailed below.

Physical likeness

AP submitted in its application that *"…both the imported goods and the goods produced by the Australian industry are white paper cut in rectangular sheets and generally wrapped in reams of 500 sheets, but also sold in packs containing different numbers of sheets. Both are what the Australian consumer would recognise as white copy paper. Unless placed side by side, the average consumer would be unlikely to notice any difference between them.*

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

The imported goods and the goods produced by the Australian industry are physically alike in all practical aspects…."

Commercial likeness

AP submitted in its application that *"…The imported goods and the goods produced by the Australian industry compete for the same market. In particular, a significant portion of the Australian market is goods wrapped and sold as the purchaser's own brand e.g.* [redacted] *[customer]. In this portion of the market, together with the 'plain wrap' and generic products, there is direct head-to-head competition between imported goods and the goods produced by the Australian industry. At different times in the past, Australian Paper has previously supplied several of the purchaser's brand products now sourced from imports, most particularly the* [redacted] *[customer and brand].*

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 "

Functional likeness

AP submitted in its application that *"….Both the imported goods and the goods produced by the Australian industry are used in the same range of applications, including high speed and low speed copying, printing (both on computer printers* *and small offset printers), and general use in business, education and home offices as well as in small offset printers.*

The imported goods and the goods produced by the Australian industry are functionally alike in all practical aspects.

In the domestic markets of the exporting countries, as well as 'export grade' goods produced by the exporters in the nominated countries which are generally comparable with the goods sold in the Australian domestic market, there are also lower priced goods which have significantly inferior appearance (e.g. lower brightness, lower whiteness, poor surface finish, specks, inconsistency etc.) and, at times, functionality (e.g. unsuited to high speed duplex copying or printing) when compared with the 'export grade' goods…."

Production likeness

AP submitted in its application that "*….The paper production and finishing processes are substantially identical across the large scale industry. Some mills, such as UPM-Kymmene China, use paper pulp purchased from bleached pulp mills located elsewhere while others, such as Australian Paper, have their own bleached pulp mills on site.*

The imported goods and the goods produced by the Australian industry are manufactured using equipment and processes which are alike in all significant practical aspects and which are as described in (the application)….."

While the locally produced goods are not necessarily identical to the goods the subject of the application, the verification team is satisfied that the locally produced goods closely resemble the goods the subject of the application and are like goods given that:

- the primary physical characteristics of imported and locally produced goods are similar;
- the imported and locally produced goods are commercially alike as they are sold to common end users;
- the imported and locally produced goods are functionally alike as they have the same end-uses; and
- the imported and locally produced goods are manufactured in a similar manner.

2.6 Tariff Classification

The goods have been classified to the following tariff subheading:

- 4802.56.10, statistical code 03.

Statistical code 03 refers to 'white' A4 copy paper weighing between 40 gsm – 89 gsm. It is noted that statistical code 09 refers to the goods weighing 90 gsm or more but not more than 150 gsm. AP's goods description refers to the goods having a "*nominal basis weight range of 70 to 100 gsm".* Consequently, there is some possibility that some of the goods subject of this application may be imported under statistical code 09.

2.7 Preliminary assessment of like goods

The Commission's assessment is that:

- The A4 copy paper produced by AP is a like good of the imported goods;
- The like goods are wholly or partly manufactured in Australia by AP;
- At least one substantial process of manufacture of A4 copy paper is carried out in Australia; and
- There is an Australian industry which produce like goods in Australia.

3 THE AUSTRALIAN MARKET

3.1 Introduction

AP advised that in Australia, cut sheet paper (copy paper, office paper or laser paper) is predominantly A4 (210 x 297 mm) in size and 80 gsm in weight with a much smaller quantity sold in other sizes (i.e. A3 and A5). AP also advised that small quantities of A4 copy paper is sold in other sheet weights of 70, 75, 85, 90 and 100 gsm.

AP submitted that the Australian market is supplied by itself (as the sole Australian manufacturer) and imports from a range of countries.

3.2 Market Segments & Distribution Channels

AP advised that were three basic categories of end users. These were:

- Home and home office/small office;
- Medium and large business, government and education; and
- Industrial users including instant print and in-plant printing operations

AP identified the key supply channels for office paper in Australia. These were the retail, industrial, corporate stationery, resellers and the OEM sectors.

AP indicated in its application that cut sheet paper in Australia is primarily sold through a handful of national key contract resellers and retailers. AP provided information on proportions of the channels it supplied and its understanding of the key competitors operating within each of the key supply channels. Information provided by AP is contained in **Confidential Attachment 3.**

Both AP's domestic sales of A4 copy paper products and imported A4 copy paper products are sold to the same key end users identified above. Also, both domestically produced and imported product are supplied through each of the key supply channels identified by AP.

3.3 Categories of Goods in Australian market

AP submitted that there are three broad categories of product in the Australian A4 copy paper market. AP further advised that effectively all 80gsm white A4 copy paper in the Australian market is substitutable, with little discernible physical difference in marketable product other than pricing. Due to the highly price sensitive nature of the Australian market, and the interchangeability of copy paper sources, wholesalers, distributors and retailers readily switch between domestically produced and imported copy paper based on pricing. The three broad categories of A4 copy paper in the Australian market were:

- Manufacturer brands;
- Private Label/Customer brands; and
- Plain or generic label.

AP provided a summary of the key brands manufactured by itself and those imported into Australia.

AP advised that some products in the market, including products produced by itself, may be able to benefit in terms of pricing premium from high brand awareness as the result of sustained marketing. AP also advised that these brands compete directly with imported A4 copy paper in the Australian market.

3.4 Substitutable Products

AP advised that although mechanical papers, tinted papers, embossed papers, watermarked papers, pre-printed papers and coated papers can on rare occasions be substituted for plain white uncoated cut sheet paper, these are generally sold on different markets at much higher prices. As such, AP has submitted that there is no market substitute for A4 copy paper.

3.5 Demand

AP describes the Australian market as being ‘mature’. AP believes that growth in population and in the Australian workforce has offset declining per capita use of cut sheet paper, keeping the overall market size fairly stable year on year. AP advises that the lack of growth creates a situation where it is competing for market share with competitors, as this is the only way to increase sales volumes. AP also advised that the market is not subject to seasonal fluctuations.

The verification team’s analysis indicates that sales of A4 copy paper in the Australian market grew between 2012 and 2014, before declining in 2015. Given the relative size of the growth and decline, the verification team considers that AP’s view of demand are reasonable.

3.6 Market size and share

In its application AP provided an estimate of the Australian A4 copy paper market during the injury analysis period.

The Commission is continuing to assess and validate the size of the Australian copy paper market.

The total volumes of A4 copy paper in the Australian market, based on the estimates provided by AP, can be observed, below, at Figure 1:

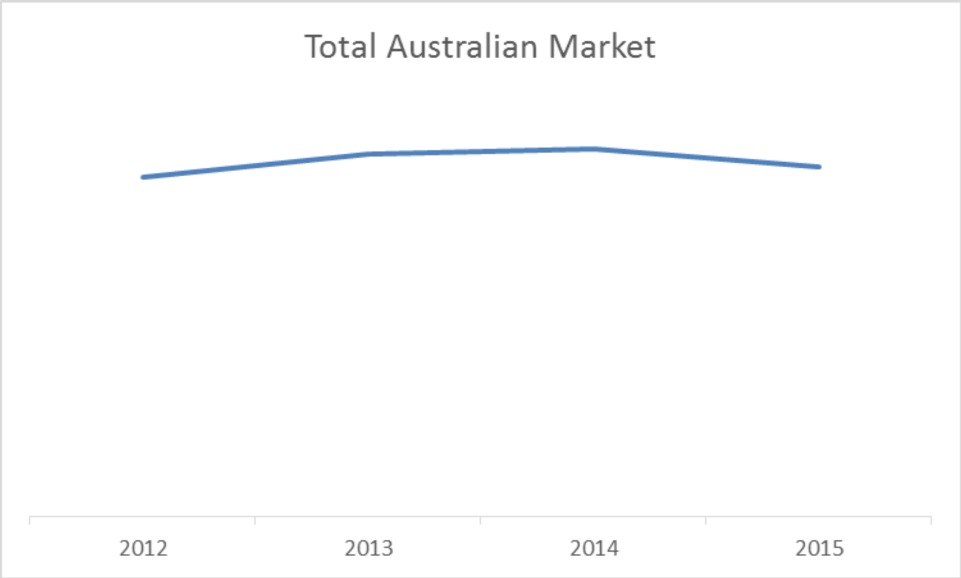

Figure 1: Total Australian A4 copy paper market in tonnes

It can be seen that the overall Australian A4 copy paper market increased between 2012 and 2015, with a decline between 2014 and 2015.

4 SALES

4.1 General

As part of its application, AP provided the Commission with its sales listing for the 2015 calendar year. At the industry visit we sought to verify the company's sales information to its financial accounts and source documents for selected sales in order to establish that the information provided was complete, relevant and accurate. This sales listing is attached at **Confidential Appendix 1**.

4.2 Imports

AP advised that it imports specialty grades between 90 and 300 gsm made for colour laser printing and digital printing. A lot of these imports are from European countries particularly Austria.

4.2.1 Export Sales

During the investigation period, AP made export sales of A4 copy paper. Export sales formed approximately one third of overall sales of like goods by AP. AP advised that due to its production capacity and the decrease in domestic sales, it had no choice but to export a proportion of its products.

4.3 Sales to related customers

AP did not make sales to related parties during the investigation period.

4.4 Ordering and delivery

The ordering process involves various forms of communication in order to place an order including email, fax and an online ordering process.

Invoices are delivered with delivery of goods, via email and via post with most delivery terms being production to store and production to warehouse to store. Customers receive free delivery on all orders over [redacted] *[order value]*.

4.5 Pricing

Pricing arrangements between AP and its customers vary due to many potential factors, including the sector of the market. Prices may be negotiated upfront in fixed contracts for a period, or float if the customer is seeking to benefit over time from declining market pricing trends

AP offers various rebates to customers including volume rebates, trading term/general rebates and product specific rebates.

4.6 Verification of sales data to audited financial statements

To assess sales data for completeness and relevance, verification to audited financial statements was undertaken. The verification team verified the domestic sales of A4 copy paper, using a sales report provided by AP. The verification team was given a presentation by AP of how this sales report was generated from SAP and all filtering for A4 copy paper was shown on site.

A slight discrepancy existed between the data provided in Appendix A4 to AP's application, however this was most likely due to returns, and the quantities and values were immaterial. The verification team was satisfied with this explanation.

The verification team selected the entire September quarter 2015 from AP's Appendix A4 sales data and verified these transactions through AP's SAP system up to the general ledger accounts, from which the sales report was generated. The verification team is satisfied that the sales listing provided at Appendix A4 of the application is complete and accurate.

Having regard to the above, the verification team considers that the Appendix A4 sales data provided represents reasonably complete and relevant accounts of AP's sales of A4 copy paper during the period from 1 January 2015 to 31 December 2015. For the complete verification procedures undertaken, see **Confidential Attachment 1**.

4.7 Verification of sales data to source documents

To assess sales data for accuracy, verification to source documents was undertaken. Prior to the visit the Commission selected a sample of transactions from the sales list for verification to source documents.

For the selected sales, AP provided a variety of the following documents:

- Purchase order;
- Delivery docket;
- Tax invoice; and
- Proof of payment.

The customer, invoice number, invoice date, quantity, gross invoice price and gross proceeds reconciled with the source documents provided.

These source documents are attached at **Confidential Attachment 1**.

The verification team is satisfied that the source documents are a complete and accurate reflection of the sales.

4.8 Export sales

AP sells A4 copy paper, along with other products, on the export market. AP's export sales of copy paper had dropped in the 2015 year, however domestic sales of copy paper remained stable. Reference is made to section 7.4.3 of this report where further analysis of AP's sales is discussed.

5 COST TO MAKE AND SELL

5.1 Verification of manufacturing cost data to audited financial statements

The visit team verified the completeness and relevance of AP's cost to make and sell (CTMS) like goods (Appendix A6 to AP's application) by reconciling it to audited financial accounts in accordance with ADN 2016/30.

Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

5.2 Verification of costs down to source documents

The visit team verified the accuracy of AP's CTMS like goods by reconciling it to source documents in accordance with ADN 2016/30.

Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

The visit team did not find any material discrepancies or issues.

5.3 Costs to make and sell – conclusion

The visit team considers that AP's CTMS data in Appendix A6 is a reasonably complete, relevant and accurate reflection of the CTMS for A4 copy paper during the period 1 January 2012 to 31 December 2015 and is suitable for analysing the economic performance of its A4 copy paper operations from1 January 2012 to 31 December 2015.

6 ECONOMIC CONDITION

6.1 AP's injury claims

In its application, AP submitted that the Australian industry has suffered material injury and that injury was caused by copy paper being exported to Australia at dumped prices from Brazil and Thailand, and dumped and subsidised prices from China and Indonesia.

As specified in the consideration report, AP stated in its application that it had suffered the following types of injury:

- loss of sales volume;
- reduced market share;
- price depression;
- loss of profits;
- reduced profitability;
- reduced employment;
- reduced capacity utilisation; and
- reduced return on investment.

In its application, AP claimed that it had observed a sharp increase in import volumes of A4 copy paper at dumped prices in 2013. AP advised that it introduced a number of cost reduction initiatives that assisted in improving the company's competitiveness with imports in 2013 and 2014. However, AP claims that in 2015 it was not able to continue reducing costs to match the continued decline in selling prices.

The verification team sought to verify the evidence and data AP relied upon in making these allegations. The verification team's analysis of this information is contained in this chapter (Economic Condition) and the following chapter (Causation).

6.2 Evaluation of other relevant economic factors

In addition to the above mentioned injury factors, the verification team also analysed other relevant economic factors based on data provided by AP. These are:

- capital investment;
- assets;
- research & development expenditure;
- revenue;
- productivity;
- closing stock; and
- accounts receivable.

6.3 Approach to injury analysis

The Commission has used the verified AP data in its analysis of the economic condition of the industry for the period 1 January 2012 to 31 December 2015. Data from the Australian Border Force import database has also been used in this analysis.

All analysis in this section relates only to domestic sales of A4 copy paper and is based on calendar year data, unless noted otherwise.

In AP's application, injury indices were presented for the period between 2010 and 2015, however, the Commission has decided to use 2012 to 2015 as the injury analysis period. The injury analysis period selected by the Commission is consistent with the Commission's convention of including the preceding three years to the investigation period as the injury analysis period.

The data and analysis relating to the assessment of the Australian industry's claims of injury are contained in **Confidential Appendix 2.**

6.4 AP's injury claims - Volume effects

6.4.1 Sales volumes

In its application, AP submitted that it has suffered material injury in relation to lost sales volumes of copy paper due to increased volumes of imports at dumped and subsidized prices from China and Indonesia, and dumped prices from Brazil and Thailand.

Figure 2 below illustrates AP's sales volume of A4 copy paper in the domestic market during the injury analysis period.

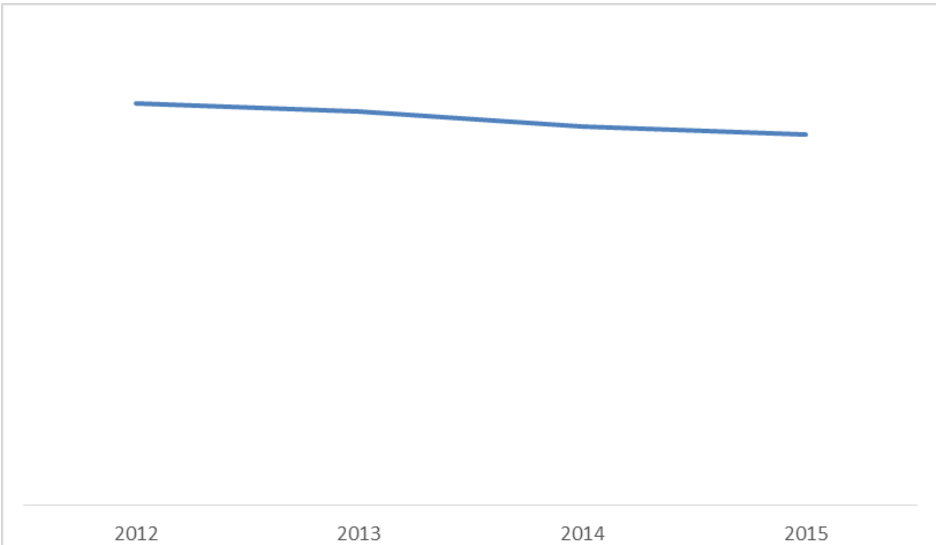

Figure 2: AP's domestic sales volume of like goods from 2012-2015

As shown in Figure 2, AP's domestic sales volume of A4 copy paper has consistently declined, year on year, between 2012 and 2015. The overall decline in AP's sales volume between 2012 and 2015 was eight per cent.

6.4.2 Market share

Figure 3 below illustrates the movements in AP's market share for copy paper over the injury analysis period.

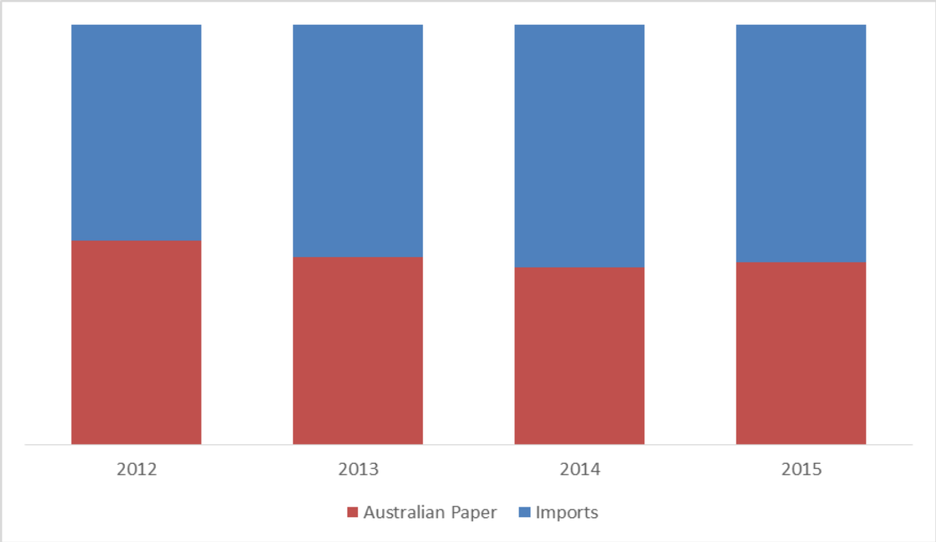

Figure 3 – Proportional Market share

Figure 3 illustrates that AP's market share has declined during the injury analysis period, with the most significant decrease occurring from 2012 to 2013. AP's market share increased slightly in 2015, however, still remains below the level recorded in 2012. Copy paper imported by AP was excluded from the import data analysed.

6.5 AP's injury claims - Price effects

In its application, AP claimed that it had been injured through price depression. For the purposes of analysis, the Commission completed both a price suppression and price depression analysis.

AP's verified sales data used for this analysis excluded export sales and sales of copy paper imported by AP.

6.5.1 Price suppression

Price suppression occurs when price increases, which otherwise would have occurred, have been prevented.

In determining whether price suppression has occurred the Commission may examine:

- a comparison of prices with costs to assess whether over time (e.g. the injury analysis period) or within a specified period (e.g. the investigation period) - prices have not increased at the same rate as cost increases; and/or
- an assessment as to whether the prices for the Australian industry's product are lower than prices that may have been achieved in the absence of dumping.

Figure 4 below illustrates movements in AP's domestic weighted average unit costs and prices for A4 copy paper during the injury analysis period.

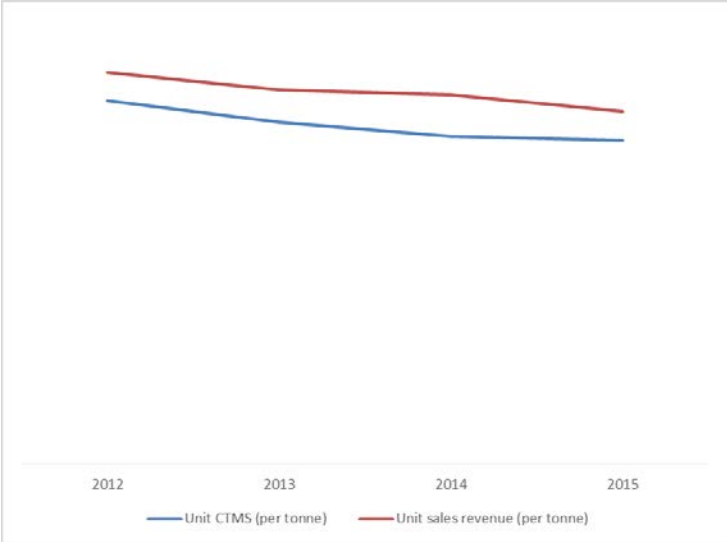

Figure 4 – AP's unit CTMS vs unit domestic sale prices of like goods

AP claimed, in its application, that it had implemented a number of cost reduction measures in 2013 to compete with increased import competition. As shown in Figure 4, unit CTMS decreased in 2013 and 2014, while a less substantial decrease was recorded in 2015. During this period, the unit price was also decreasing. From 2012 to 2014, the differential between unit cost and price increased. However, in 2015 the differential between unit cost and unit price decreased due to a more substantial decline in unit price relative to unit cost. In its application AP states further cost reductions, such as those in 2013 and 2014, were not possible in 2015. This is indicative of price suppression, as the decrease in AP's prices was not matched by a decrease in CTMS.

6.5.2 Price Depression

As indicated in Figure 4, AP's unit pricing has declined consistently across the injury analysis period, which is indicative of price depression.

6.6 Profit and profitability effects

In its application, AP claimed that it was sufferring injury in the form of reduced profit and profitability. Figure 5 below shows AP's profit and profitability for A4 copy paper over the injury analysis period.

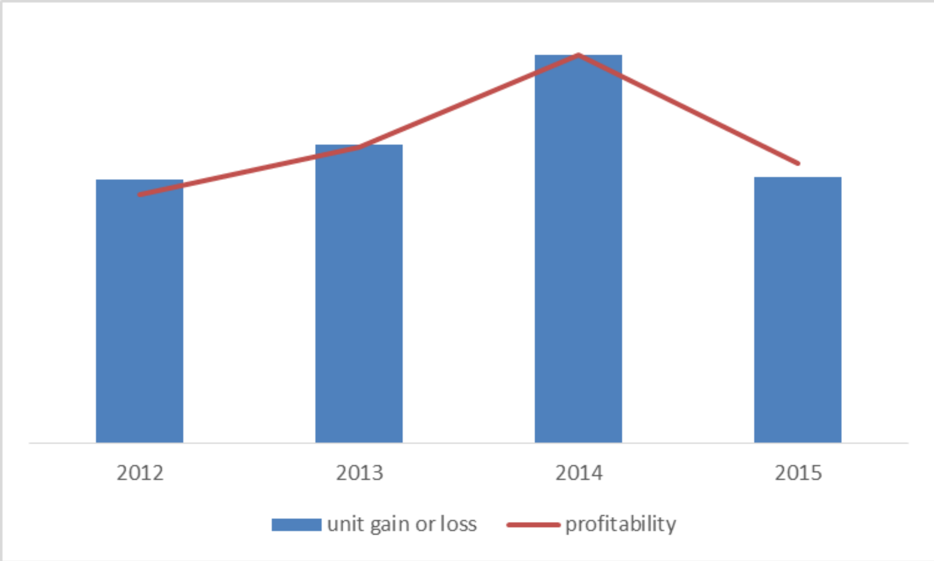

Figure 5 – AP unit profitability of like goods 2012 to 2015

As illustrated in Figure 5, AP's unit profit and profitabilty was increasing from 2012 to 2014. In 2015, however, AP's unit profit and profitability decreased relative to 2014.

The analysis of AP's price injury, unit profits and profitability is contained in **Confidential Appendix 3**.

6.7 Other Injury Factors Claimed

In its application AP claimed injury in relation to reduced employment, reduced capacity utilisation, and reduced return on investment. During the verification, AP provided a revised Appendix A7 to the application for years 2010 to 2015. The revised Appendix A7 is attached at **Confidential Appendix 4**.

6.7.1 Employment

The revised Appendix A7 provided a corrected calculation of employment numbers dedicated to the production of A4 copy paper. This is illustrated in Figure 6, below.

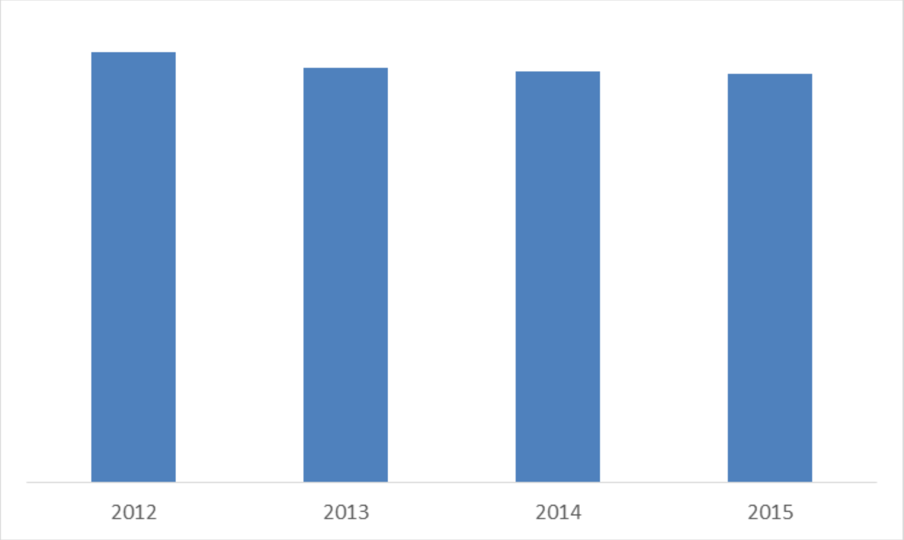

Figure 6 – AP's total employment in A4 copy paper production

As illustrated above, AP's employment numbers dedicated to A4 copy paper production continually decreased over the injury assessment period.

6.7.2 Capacity Utilisation

AP explained that due to the nature of paper manufacturing, it is less profitable to decrease production through production stoppages than it is to continue to produce and sell excess product at a minimum margin in export markets. In this context, production previously allocated to the production of A4 copy paper has been allocated to the production of other paper products and/or to sell into other markets. Therefore, the verification team was not able to satisfactorily verify that injury relating to capacity or capacity utilisation had occurred.

6.7.3 Return on Investment

AP stated in its application that it had suffered a reduced return on investment.

To support this, AP provided a calculated return on assets based on its earnings before income tax (EBIT) as a proportion of assets. Having reviewed the methodology used to calculate this return on investment, the verification team is not satisfied that the methodology applied by AP sufficiently isolates the effective EBIT attributable to A4 copy paper.

Therefore, the verification team was not able to satisfactorily verify that injury relating to return on investment had occurred.

6.8 Other relevant economic factors

The revised Appendix A7 provided information on assets, capital investment, revenue, return on investment, capacity, capacity utilisation, employment, closing stocks, cash flow measures and wages.

Movements in the revised Appendix A7 data provided by AP, excluding those discussed previously, are detailed below.

Capital investment

AP provided the verification team with financial data relating to property, plant, and equipment. This data was further broken down to describe property, plant, and equipment relating to the production of white A4 copy paper. In order to illustrate capital investment during the injury analysis period, the verification team has used the net-change in the annual value for property, plant, and equipment. This is shown below in Figure 6.

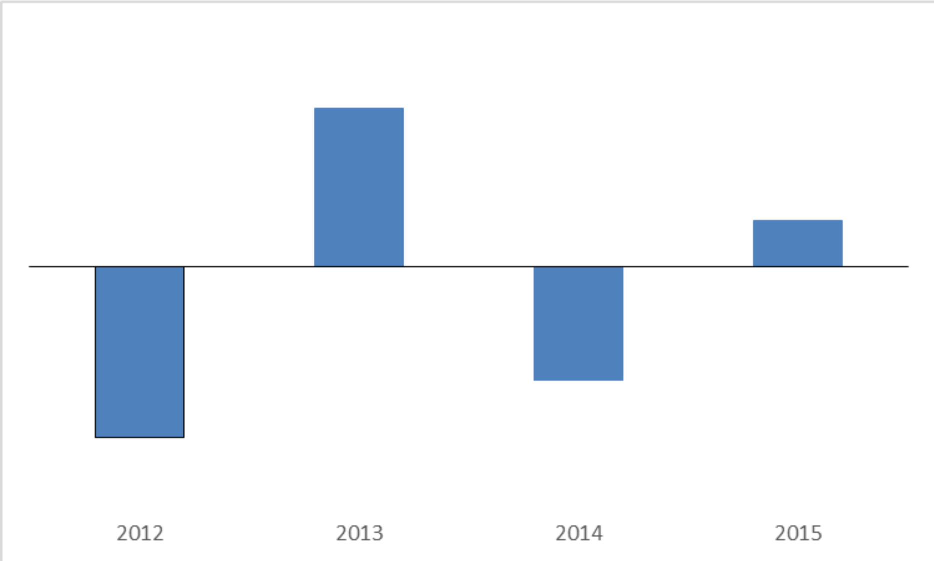

Figure 7 – AP, Property Plant and Equipment (net change)

As shown in Figure 7 above, the net change in property, plant, and equipment has varied during the injury analysis period. While a discernible trend is not easily apparent, the net change from 2012 to 2015 was indicative of a 6 per cent increase in the value of property, plant, and equipment.

Assets

The value of total assets dedicated to A4 copy paper production is pictured in Figure 8 below. While the movement in the level of total assets decreased in 2014 compared to 2013, in 2015 the level of total assets related to A4 copy paper was higher relative to 2012.

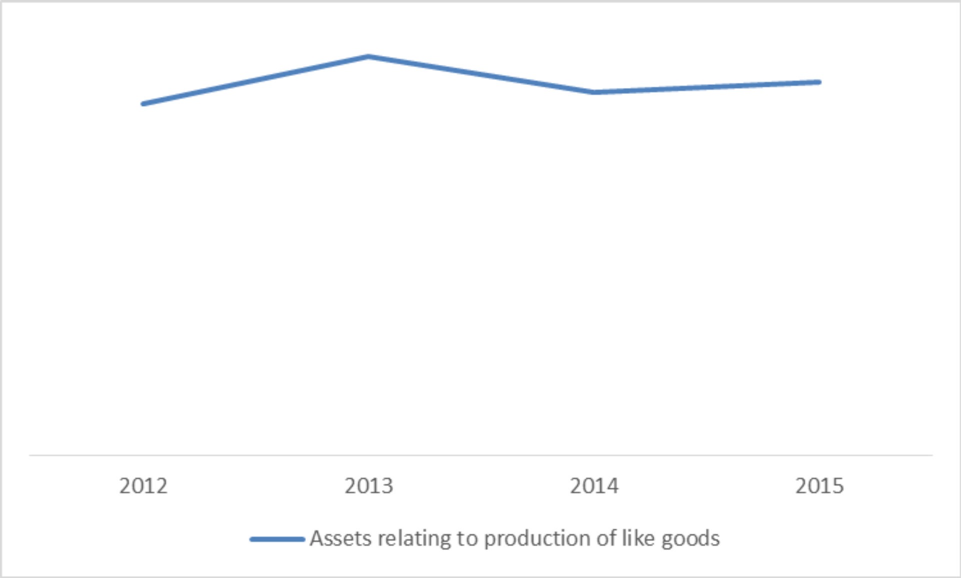

Figure 8 – Total assets dedicated to A4 copy paper production

Research & Development Expenditure

AP submitted to the verification team its expenditure on research and development (R&D), as depicted below in Figure 9. While the value of R&D expenditure varied from year to year, the level of expenditure was approximately 10 per cent higher in 2015 compared to 2012.

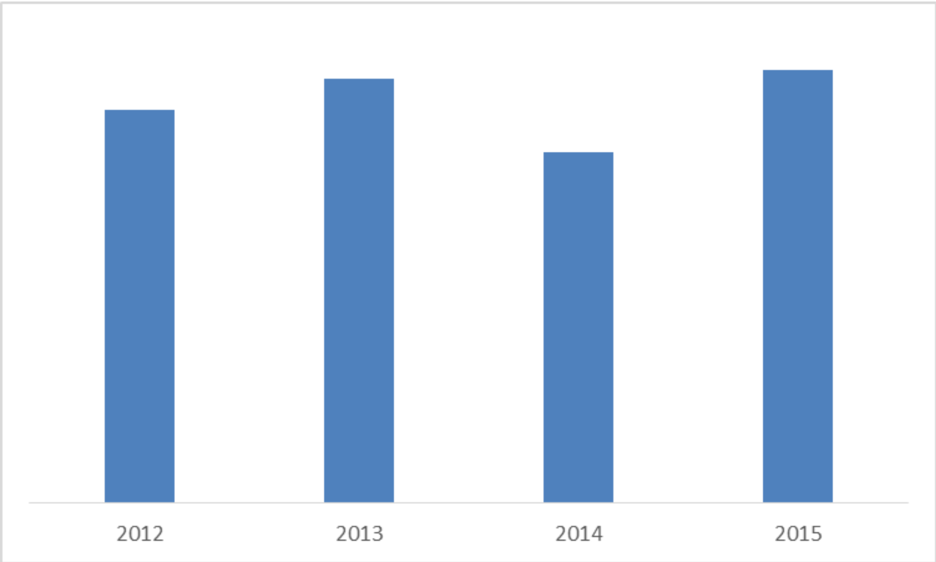

Figure 9 – R&D exepnditure

Revenue

While revenue from sales of like goods remained relatively unchanged between 2012 and 2013, as shown below in Figure 10, it declined year on year from 2013 to 2015. Over the course of the injury analysis period, revenue derived from sales of A4 copy paper in 2015 was approximately 10 per cent below the level recorded in 2012.

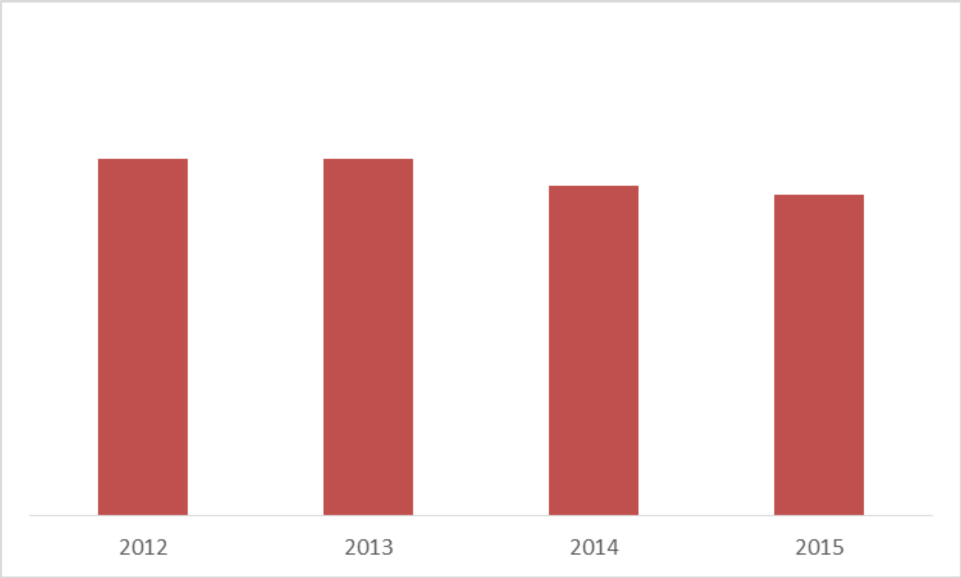

Figure 10 – AP's revenue from copy paper sales

Closing stock

Stock held at the end of each financial year is charted in Figure 11 below. While closing stock increased in 2013, it fell sharply in 2014 and only recovered marginally in 2015, and remained well below its initial level.

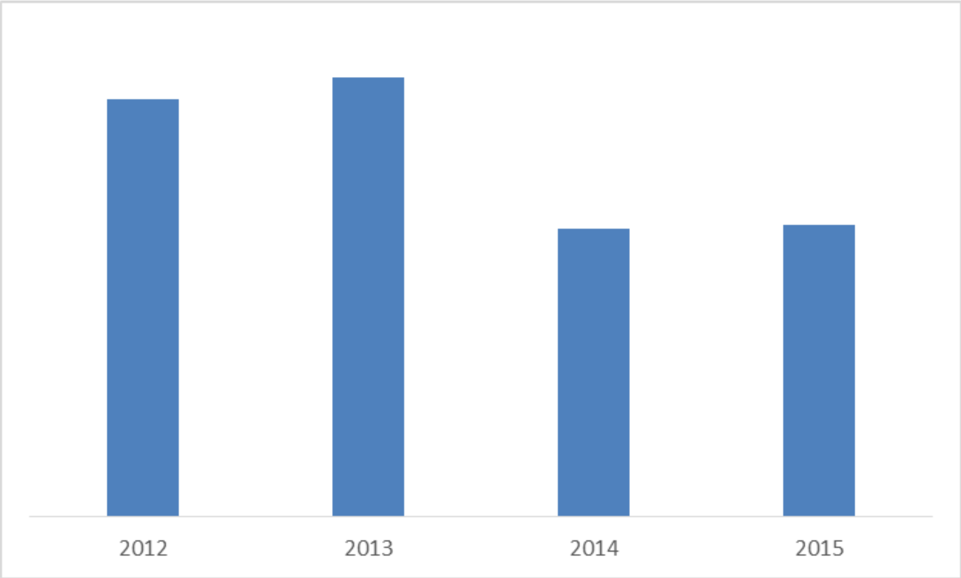

Figure 11 – Closing stocks of like goods

Accounts receivable

AP's average accounts receivable figures from the sales of like goods are depicted in Figure 12.

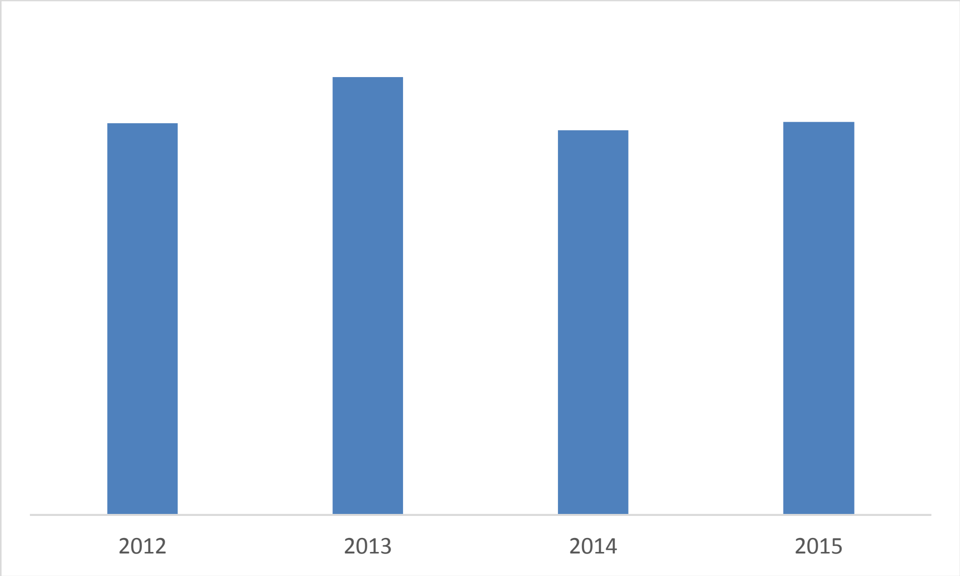

Figure 12 – Average accounts receivable from sales of like goods ($)

6.9 Conclusion on injury

The verification team verified the claims made in AP's application and is satisfied that on analysis of information contained in the application and obtained during the verification visit, AP has experienced the claimed injury in the form of:

- loss of sales volumes;
- decline in market share;
- price depression;
- reduced employment related to the production of A4 copy paper; and
- reduced profits and profitability.

In addition to the above, the below conclusions, as they relate to the other economic factors verified by the Commission, were also observed.

- increase in net capital investment between 2012 and 2015;
- net increase in the value of assets from 2012 to 2015;
- increase in research & development expenditure between 2012 and 2015;
- decline in revenue from like goods during the injury analysis period;
- downwards trend in relation to return on assets;
- decline in closing stock between 2012 and 2015; and
- no discernible trend as it relates to accounts receivable.

The verification team's analysis indicates that AP has suffered, in addition to its claimed injuries, injury in the form of reduced revenue from A4 copy paper and price suppression.

7 Causal Link

The verification team discussed with AP whether the alleged dumping of A4 copy paper could be demonstrated to be causing material injury to the Australian industry.

7.1 Background

AP has submitted that it has experienced a decline in domestic sales volumes along with a decline in net selling prices due to increasing import volumes of A4 copy paper from Brazil, China, Indonesia and Thailand.

Assertions were made to that effect through the following examples:

- AP made a pricing offer on a tender for the 2015 year, feedback was received that the pricing submission of AP was a primary factor in AP being unsuccessful in the tender submission; and
- AP assert that it been required to lower its prices to remain competitive.

The verification team has provided verification and analysis of these assertions in chapters 7.2 and 7.3 below.

7.2 Price effects

Data provided by AP indicates that the Australian market for A4 copy paper is very price sensitive. For instance, the majority of sales, at the retail level of trade, occur at times when products are promoted and offered at a discounted price. This is the case for both imported A4 copy paper and A4 copy paper sold by AP.

AP submitted that the market price, namely due to imported A4 copy paper, has been driven downwards and as a result, AP has lost out on a number of tenders to importers of allegedly dumped goods. This has been the case where AP has had to lower its pricing in tender submissions due to decreasing prices offered by importers of A4 copy paper.

A number of examples were provided with the application, indicating that the price had been driven down. These examples included A4 copy paper imported from Brazil, China, Indonesia and Thailand, and an analysis of these is available at **Confidential Appendix 5**. During the verification AP provided further information and clarification of the examples contained in confidential appendix five.

The verification team concludes that AP’s price was driven down in one successful tender to place AP in a competitive position, and in one unsuccessful tender, price was a leading factor for the tender being deemed unsuccessful, where an importer had been successful.

7.3 Volume effects

AP advised that there is a strong correlation between its sales volume at the retail level and price. It provided week-by-week scan data for the 2015 year for both one of its products and an equivalent imported product. The verification team observes that the AP product competes directly with the imported product at the retail level and increased volumes of both products were sold when these products were discounted. The volume effects analysis can be found at **Confidential Appendix 6**.

7.4 Other possible causes of injury

7.4.1 Depreciation of Australian dollar

AP uses various imported raw materials in its production of A4 copy paper. As a consequence, the verification team sought to assess the impact of fluctuations in the Australian dollar over the injury analysis period on AP's costs.

Figure 13 below illustrates the movement in the Australian dollar against the US dollar (FXRUSD) and the Reserve Bank's trade weighted index (FXRTWI)

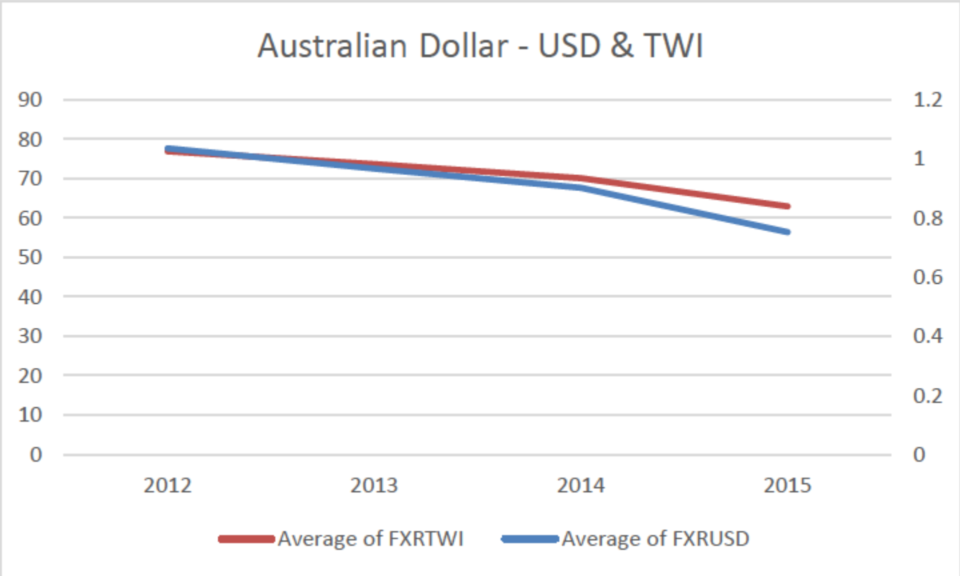

Figure 13 – Australian Dollar – FXRUSD & FXRTWI

It is noted that the Australian dollar declined against both the FXRUSD and the FXRTWI over the analysis period.

AP provided the verification team with a breakdown of its raw materials, which split raw materials between those purchased locally and those sourced from overseas. In addition to those raw materials purchased directly by AP from overseas, this breakdown also included raw materials purchased from Australian third parties, but originally sourced from overseas suppliers.

Figure 14 below illustrates the aggregate cost of raw materials sourced from overseas to manufacture A4 copy paper for the period between 2012 and 2015.

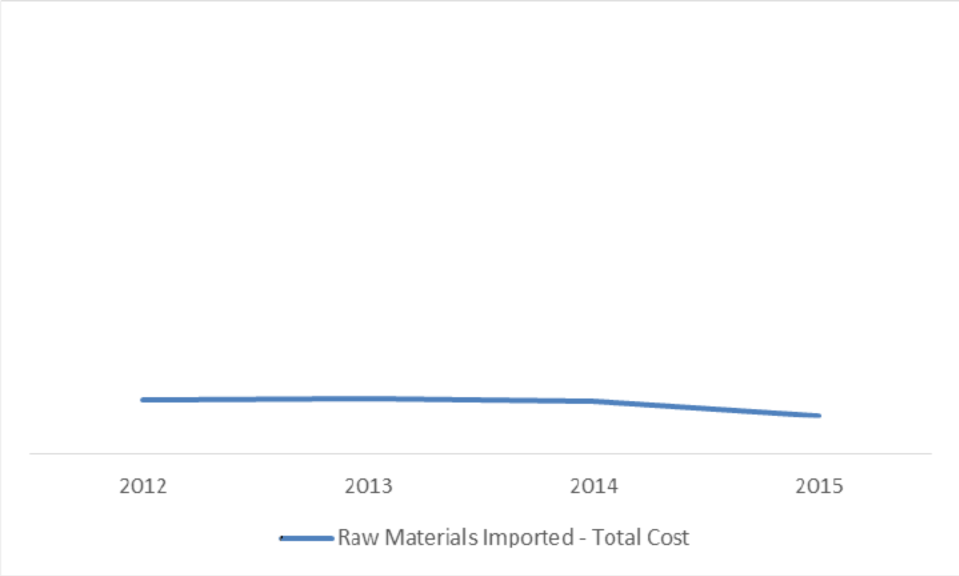

Figure 14 – Raw Materials Imported ($-scale based on total raw material costs)

It was observed that total cost of imported raw materials increased between the 2012 and 2013 year, before declining between 2013 and 2015. The increased cost of imported materials in 2013 was, in part, related to the closure of Amcor's de-inking plant (DIP) from which AP previously sourced its recycled pulp. Subsequent to the commissioning of the DIP, recycled pulp is no longer imported by AP. AP also advised the verification team of other strategies it had adopted to reduce its reliance on imported raw materials.

The verification team's analysis also indicated that, on a per tonne basis, AP had reduced its overall total raw material costs (i.e. combined imported and domestic raw material costs). This is reflected in Figure 15 below.

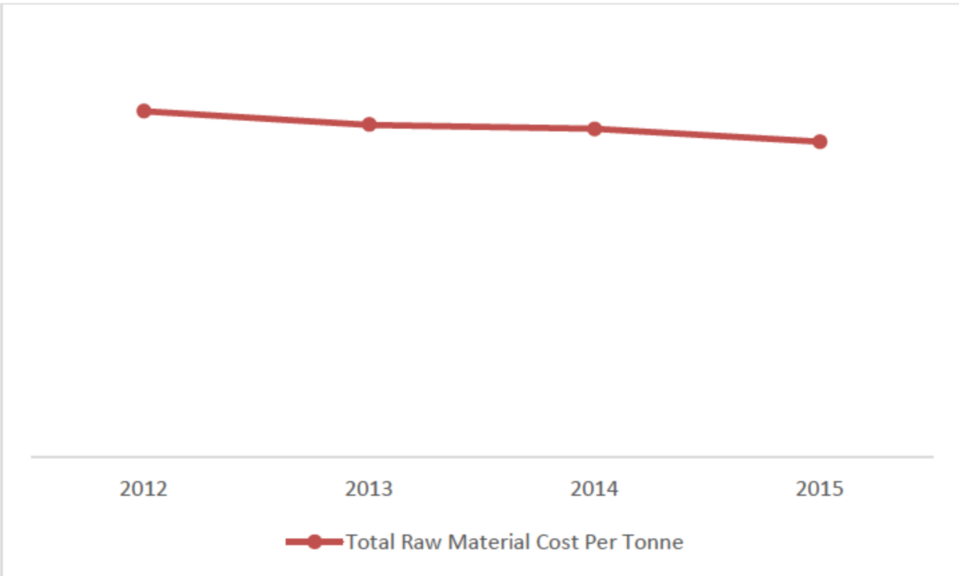

Figure 15 – Per Tonne Raw material Costs - Imported & Domestic ($)

The verification team conducted separate analysis of a sample of imported raw materials to determine their impact on AP in the context of the devaluation of the Australian dollar. It was noted that these raw material costs were influenced by both the Australian dollar and the world prices for these raw materials.

The verification team is satisfied that after 2013, AP reduced its dependence on imported raw materials and, as a consequence, the influence of the Australian dollar on cost inputs reduced over the injury analysis period. Whilst the overall cost of some of the imported raw materials in 2015 is greater than that in 2012, this cost difference has to be assessed in the context of its overall influence on the CTMS and AP's reductions in CTMS during the injury analysis period. It is to be noted that the Australian dollar had declined during this same period. These cost reductions included reductions in the combined cost of both imported and domestically sourced raw materials between 2012 and 2015.

The verification team's analysis of AP's imported raw materials costs is contained in **Confidential Appendix 7.**

7.4.2 De-inking plant

During 2015, AP commissioned the operation of a DIP at the Maryvale mill.

The DIP became operational in April 2015 after the purchase, upgrading and commissioning of Amcor Paper's Fairfield DIP. The pulp produced by this plant is further consumed in the production of various products manufactured by AP. This includes A4 copy paper.

The verification team sought to establish the impact of the commissioning of this DIP on the cost to manufacture A4 copy paper during 2015.

The verification team notes that the commencement of the DIP has marginally impacted the cost to manufacture A4 copy paper during 2015. However, it is noted that these costs have partially offset the impact of the decline in the Australian dollar when AP switched from imported to DIP sourced recycled pulp during 2015.

The verification team's analysis is contained in **Confidential Appendix 8.**

7.4.3 Impact of United States anti-dumping investigation

AP was subject to a United States (US) anti-dumping investigation concerning certain uncoated paper exported from Australia, Brazil, China, Indonesia and Portugal.

The goods subject to this investigation included "*…. uncoated paper in sheet form; weighing at least 40 grams per square meter but not more than 150 grams per square meter; that either is a white paper with a GE brightness level 1 of 85 or higher or is a colored paper; whether or not surface decorated, printed (except as described below), embossed, perforated, or punched; irrespective of the smoothness of the surface; and irrespective of dimensions (Certain Uncoated Paper)"*.

This investigation was initiated in February 2015, with a preliminary determination being made in relation to Australia on 26 August 2015 and a final determination being made in January 2016. The preliminary dumping margin determination in relation to AP was 40.65 per cent and the final dumping margin determination was 222.46 per cent

The verification team sought to establish the impact of the US anti-dumping investigation in relation to the injury claims made by AP in this investigation.

The verification team has found that volumes of uncoated paper to the US declined from the 2014 year to the 2015 year, however this has not resulted in a drop in production of A4 copy paper or any other paper product for that matter. Any decline in copy paper sales to the US has had no impact on the domestic sales of A4 copy paper by AP from 2014 to 2015. This is illustrated in Figure 17 below:

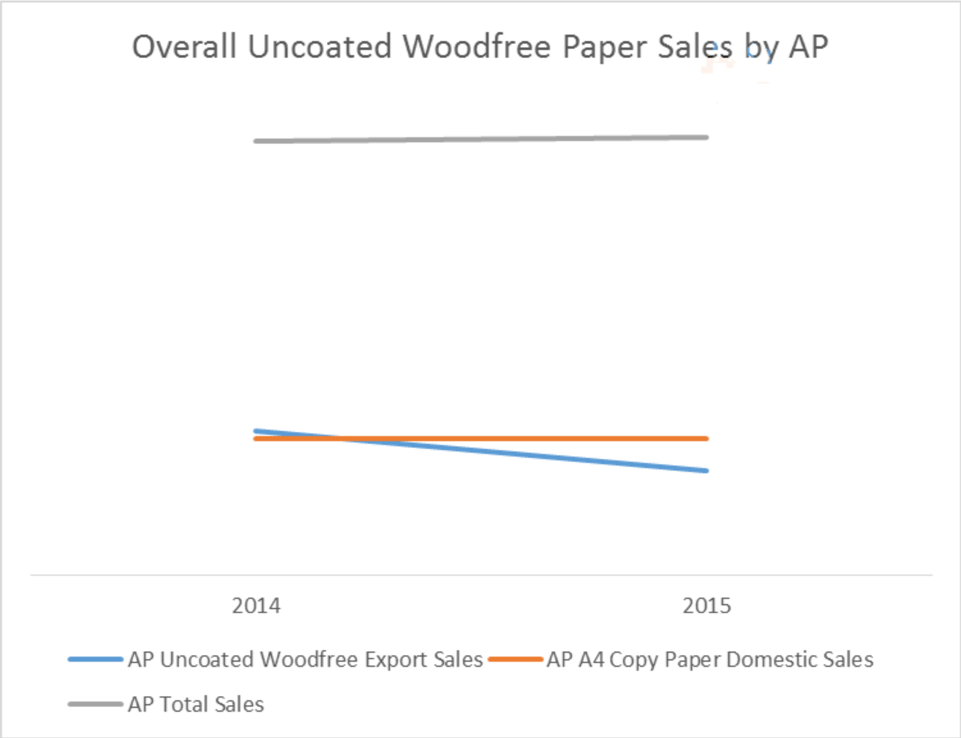

Figure 17 – Overall Uncoated Woodfree Paper Sales by AP

The verification team draws the analysis that lost sales of US destined uncoated woodfree paper has not impacted production or sales of A4 copy paper by AP domestically.

The verification team's analysis is contained in **Confidential Appendix 9.**

7.4.4 Bushfire and chemical spill incidents during 2015

Media reports relating to AP's Maryvale mill indicated that the mill was affected by a bushfire in February 2015 and a chemical spill in June 2015.

The verification team sought further information from AP in relation to the impact of these events in relation to the mill's production and cost to manufacture.

AP advised that the bushfire caused damage to one of its wood chip piles and a wood chip conveyer system. AP advised that costs associated with the fire were allocated to head office as a once-off expense. AP provided details of the identified costs allocated to the head office. AP advised that these costs were subsequently subject to an insurance claim. The verification team's assessment of the costs associated with the bushfire was that they were not materially relevant to the cost analysis for A4 copy paper.

AP advised that the reported chemical spill was a leak in a sewer discharge pipe. An area was flooded behind a paper mill. Most of the spill was retained within the AP site, however, some sewage breached a sand weir and entered AP's billabong system and exited into the river. Rectification work and a clean-up on the flooded area was completed. The EPA issued a $7,300 fine to AP, which was issued outside the injury analysis period.

In terms of production, AP advised that neither of these events had a discernible impact on production over 2015. This is consistent with the verification team's analysis of AP's production volumes.

Based on information provided by AP, the verification team considers that the costs associated with these events did not have a material impact on the injury claims made by AP.

7.4.5 Increased fixed manufacturing costs during 2015

The verification team noted that during the 2015 year, AP's fixed manufacturing costs increased. When analysed on a quarterly period it was noted that this resulted in increased costs related to specific quarters. The verification team sought to verify the source of these increased fixed costs. AP advised that the fixed cost increase was predominately related to a planned partial plant shut down for major maintenance work. AP provided the Commission with further material evidencing this partial shutdown. AP's explanation was also consistent the verification teams analysis of AP's costs.

The verification team's analysis is contained in **Confidential Appendix 10.**

7.4.6 Market trends

It is noted that between 2012 and 2014 the Australian copy paper market increased and declined during 2015. AP advised that the Australian market for the like goods is a mature one, and is expected to remain flat; with decreased per capita usage being offset by growth in population and workforce participation.

7.4.7 AP's imports of A4 copy paper

AP imports small volumes of specialised cut sheet paper as a complement to its range. AP advised that the demand for these products does not justify local production. In total, these imports are significantly less than 1% of the Australian market. As a consequence, these imports are not considered to be materially relevant to the cause of the injury suffered by AP.

7.4.8 Restructuring and cost reduction activities

In its application AP disclosed that it had gone through a restructuring program during the injury analysis period. It was noted that these activities included the closure of the Shoalhaven paper production facility, an organisational restructure of the corporate functions, redundancies and the engagement of consultants.

AP advised that the Shoalhaven facility was not relevant to the manufacture of copy paper and, therefore, any associated costs with its closure were not applicable to this investigation.

Overall, the redundancy and consultancy costs specified by AP were considered to be insignificant in the context of the overall operating costs of AP. AP also advised that these activities had contributed to the reduction in its CTMS during the injury analysis period. As a consequence, the verification team considers these costs to not be relevant in identifying other potential causes of the injury suffered by AP.

8 UNSUPPRESSED SELLING PRICE

AP confirmed that it intended to make a submission separately on issues relating to the unsuppressed selling price (USP), non-injurious price (NIP) and the lesser duty rule prior to the publication of the Statement of Essential Facts.

9 Other Matters

9.1 Particular market situation claims

During the verification visit, the verification team discussed AP's claims of particular market situations regarding the price of A4 copy paper in both China and Indonesia during the investigation period.

China

AP asserted that the Government of China's (GOC's) influence had materially distorted the price of A4 copy paper within China through support provided to the A4 copy paper industry and industries supplying key raw material inputs (including pulp and chemicals). AP asserted that this support was primarily the result of the Chinese pulp and paper industry being designated as an 'Encouraged' industry.

AP asserted that the influence of the GOC on the Chinese pulp and paper industry was supported by the documentation provided in its application to the Commission and the recently completed countervailing investigation undertaken by the United States Department of Commerce into exports of uncoated wood free paper from China.

Indonesia

AP asserted that the Government of Indonesia (GOI) had materially distorted the domestic price of copy paper in Indonesia through assistance provided through its National Industry Policy. AP identified the most significant distortions within the Indonesia pulp and paper industry as resulting from the GOI's provision of timber at less than adequate remuneration and its restrictions on the export of logs.

AP asserted that the findings of the recently completed countervailing investigation undertaken by the United States Department of Commerce into exports of uncoated wood free paper from Indonesia supported these claims.

Conclusion

At the time of this report, the Commission has not as yet established a preliminary view on AP's market situation claims regarding exports of copy paper from China and Indonesia. The Commission will continue to investigate these claims.

10 APPENDICES AND ATTACHMENTS

Confidential Attachment 1	Verification program
Confidential Appendix 1	Sales listing
Confidential Appendix 2	Analysis of injury claims
Confidential Appendix 3	Analysis of price injury
Confidential Appendix 4	Updated Appendix A7
Confidential Appendix 5	Example of price effects
Confidential Appendix 6	Examples and analysis of volume effects
Confidential Appendix 7	Analysis of imported raw materials
Confidential Appendix 8	Analysis of DIP
Confidential Appendix 9	Analysis of impact of US DOC investigation
Confidential Appendix 10	Analysis of fixed manufacturing costs