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Mr Tim King
Case Manager
Dumping Operations
Anti-Dumping Authority
Level 35, 55 Collins Street
Melbourne Victoria 3000

Public File

Dear Mr King

Investigation No. 341 – A4 Copy Paper exported from Brazil, P R China, Indonesia and Thailand – Countervailable subsidies provided by the Government of China

I. Government of China subsidy programs

In its application for countervailing measures on A4 copy paper exported from P R China, Australian Paper Pty Ltd ("AP") detailed its understanding of a broad range of countervailable subsidies available to Chinese copy paper manufacturers in the Chinese pulp and paper industry. The range of subsidies received by Chinese pulp and paper companies were broadly categorized into the following areas:

(i) Taxation exemptions/reductions;
(ii) Grants;
(iii) Certain raw material inputs at less than adequate remuneration; and
(iv) Interest free loans.

II. State-owned corporations

AP demonstrated in its application that certain pulp and paper entities (including State-Owned Enterprises) had published via disclosures in Annual Reports that they had received subsidies. In particular, AP highlighted that the State-Owned Shandong Chenming Paper Holdings Limited ("Shandong" - an uncooperative exporter in the current investigation) had received certain taxation benefits, under Program 1 – Preferential Tax Policies for High and New Technology Enterprises. Additionally, Chenming (and its affiliated companies) had received a range of financial grants from the Government of China ("GoC"). The Chenming 2015 Interim Report confirmed the receipt of government grants of Chinese RMB 58,824,671 related to assets and revenue, as per the following"

> "*transfer of monetary assets from the government to the Group at no consideration, excluding capital considerations from the government as owner of the Group. Government grants are classified into government grants related to assets and government grants related to income. Government grants obtained for acquisition or construction of long-term assets or other forms of long-term asset formation are*

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classified as related to assets. Other government grants as classified as related to revenue[1]."

In respect of concessional loans and interest subsidies on loans, Chenming confirmed that it had received an interest-free loan from the GoC for RMB 68,000,000. The Chenming 2015 interim report further indicated that the State-owned policy banks had shareholdings in Chenming, which are understood to be debt-for-equity swaps with the following banks:

- Industrial and Commercial Bank of China Limited (1.19% shareholding);
- Agricultural Bank of China Limited (1.08%); and
- China Construction Bank Corporation (0.89%)

Yueyang Forest and Paper Co Ltd ("Yueyang") is a subsidiary company of China Paper Corporation ("China Paper") which in turn is owned by China Chengtong Holdings Ltd (China Chengtong), a large conglomerate operated under the supervision of the State-Owned Assets Supervision and Administration Commission ("SASAC"). The China Paper website confirms that the company is the "sole state-owned large-sized enterprise engaged in production, development and utilisation concerning forest pulp paper among central enterprises".

China paper runs three listed companies – Foshan Huaxin Packaging Co., Ltd, Guangdong Guanhao High-Tech Co., Ltd and Yueyang Paper Co. Ltd.

The China Paper website confirms that it "***faithfully fulfills the state's strategic mission,*** *actively advances forest-pulp-paper integration, and* ***transfers from only seeking paper-making capacity expansion horizontally to vertical extension*** *through controlling upstream resources on industry chain*" (emphasis added). The strategic vision of the company is also detailed:

> "*With the supports from national policies and auxiliary capital, China Paper strives to own an annual papermaking capacity over 5 million tons and an annual pulp-making capacity over 5 million tons and control over 10 million mu of forest lands at home and abroad at the end of the period of the 12th five Year Plan, with assets, income and profit all to new levels*" (sic).

The statements included on the China Paper website confirm that the state-owned China Paper and its subsidiary Yueyang are operating in accordance with the GoC's 12th Five-Year Plan for the Forestry, Pulp and Paper industry in China. This is further evidenced by the range of awards and entitlements afforded to China Paper's subsidiaries including:

- Tiger Forest & Paper Group Co., Ltd was awarded as "High Tech Enterprise of Hunan Province" in 2004 and "new-Type First Batch Enterprise of Hunan Province" in 2009;
- Yueyang Forest & Paper Co. Ltd won the "National Hi-Tech Enterprise" honour in 2009;
- Yongzhou Xiangjiang Paper Co., Ltd obtained the "High-Tech Enterprise of Hunan Province" honour in 2009;

[1] Refer Chenming Report, P. 83.

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- Hunan Juntai Pulp & Paper Co., Ltd and Hunan Maoyan Forestry Co., Ltd respectively won the "Forestry Industrialisation Leader of Hunan Province" title in 2009.

The "hi-tech" designations attract corporate tax reductions from the general rate. Favourable VAT and import duty reductions on imported capital equipment are also understood to have been provided. As an SOE, Yueyang has therefore benefited from a range of taxation benefits that are aligned with the GoC's national policies. Additionally, Yueyang has confirmed in its 2014 annual report that it has benefited from a range of grants from the GoC including:

- *industry economic subsidies;*
- *new industrialisation guide funds;*
- *financial discounts;*
- *unemployment subsidies;*
- *VAT refund;*
- *Agricultural insurance premium subsidies;*
- *Technological innovation support funds;*
- *Financial assistance demonstration project funds;*
- *Comprehensive utilisation of resources of special funds;*
- *Special funds for energy conservation;*
- *Scientific and technological achievements into special funds;*
- *Other.*

The impact of the range of taxation benefits, grants and reduced loan payments confirms the GoC's ongoing support through policies in its 12th Five Year Plan for the Forestry, Pulp and Paper sector. AP contends that the full range of policies including the rationalization of production capacity, the provision of incentives to concentrate vertical integration in the industry and the closure of outdated production capacity, are all indicative of the GoC's interventionalist role in the industry (supporting AP's 'particular market situation assertion'). However, the range of subsidies available to pulp and paper companies are factors that contribute to distortions in trade flows and result in dumped and subsidized export prices for A4 copy paper exported to Australia.

III. Non-SOEs

AP's application further evidence subsidies available to further Chinese integrated pulp and paper companies in China including Shandong Sun Paper Co., Ltd ("Sun Paper"). Within Sun Paper a subsidiary company Yanzhou Wing Yue Paper Co., Ltd benefited from a reduced corporate tax rate of 15 per cent. GoC grants totaling RMB 33,077,915 were reported by Sun Paper in the 2014 annual report.

The information available to AP upon which it based its application for dumping and subsidisation on exports of A4 copy paper exported from China indicated that the forestry, pulp and paper industry in China was a strategic industry to the economy and that all industry participants were influenced by the GoC's policies and plans for the sector. AP stated that it considered UPM China would also have received countervailable subsidies from the GoC. UPM China's Exporter Questionnaire Response ("EQR") confirmed that it was in receipt of certain benefits including grants, and a company tax rate that appears to have been lower than the general rate. Additionally, it is noted that UPM China purchased some of its coal

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requirements from an SOE, however, the Anti-Dumping Commission ("the Commission") claims that no material price difference was evident. AP would not expect there to be a significant price differential on domestically purchased coal between private and SOE suppliers as they are each impacted by the GoC's policies including the export tax on the coal consumed. The lack of a price differential is therefore not surprising.

UPM China has benefited from countervailable subsidies that have aided its competitive advantage in the Australian market. This competitive advantage has been assisted by the GoC's national policies and programs specifically tailored to the Chinese forestry, pulp and paper industry. AP affirms its representations in its application that the Chinese export sales of A4 copy paper to Australia (driven by the largest exporter UPM China) have injured the Australian industry through a loss of sales volume and price-effect injury.

IV. Raw material inputs

AP's application nominated raw material inputs consumed in the pulp and paper making process as having been provided at less than adequate remuneration. These raw materials included precipitated and ground calcium carbonate (PCC and GCC), diaphragm-grade and membrane-grade caustic soda, and untreated rutile paper slurry grade and anatase-grade titanium dioxide. In addition, coal at less than adequate remuneration for energy generation purposes was cited as a benefit.

In support of its assertions that raw material inputs for the identified chemicals were at reduced rates, AP included supportive evidence of prevailing prices [*sourced of domestic prices*] in 2015. Calcium carbonate in China was sold at approximately 160 per cent lower than the [*source*] domestic prices, caustic soda – 20 per cent lower, and titanium dioxide 70 per cent lower.

The low prices for the raw material inputs in China further enhance the Chinese producers/exporters competitiveness in export markets. The Australian industry does not benefit from reduced raw material input prices and it must compete with Chinese imports from producers that have access to lower cost inputs that are heavily influenced by the GoC though its product-discriminatory policies on applicable VAT rebates and export taxes to influence domestic supply.

The US Department of Commerce's ("USDOC") countervailing investigation of uncoated woodfree paper exported from P R China confirmed the receipt by exporters of the identified raw materials at less than adequate remuneration. It is AP's expectation that the Commission will also confirm that the Chinese exporters have benefited from raw material inputs at less than adequate remuneration throughout the investigation period.

V. Conclusions

AP has provided further evidence in this submission that the GoC has heavily influenced the development of the Chinese forestry, pulp and paper industry through a range of policies and initiatives incorporated into its 12 the Five Year plan for the industry.

The policies aimed at accelerating investment, closure of outdated capacity, and selective incentives for strategic SOEs are tools intended to artificially enhance Chinese producers/exporters on the world market. The specific instruments used to aid Chinese

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producers include raw material inputs at less than adequate remuneration, tax reductions/exemptions (on corporate and VAT taxes), and a range of government grants.

The benefits received by the Chinese producers from the GoC are countervailable subsidies that enhance the competitiveness of the Chinese produced A4 copy paper on export markets – including the export of A4 copy paper to Australia.

AP urges the Commission to quantify the identified subsidies and calculate the level of benefit received for each Chinese exporter. In addition, AP requests that the Commission confirm that the impact of the subsidies (on the raw material inputs) and the favourable industry policies available to the Chinese forestry, pulp and paper industry, has rendered domestic selling prices unsuitable for normal value purposes. As a consequence, normal values must not be based upon domestic selling prices throughout the investigation period via s.269TAC(1).

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

Yours sincerely

Matt Decarne
Trade Affairs Manager