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Department of Industry, Innovation and Science

Anti-Dumping Commission

INVESTIGATION 341

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ALLEGED SUBSIDISATION OF A4 COPY PAPER

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VERIFICATION REPORT - IMPORTER

FUJI XEROX AUSTRALIA PTY LTD

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

July 2016

CONTENTS

1 BACKGROUND

On 19 February 2016 Australian Paper Pty Ltd (Australian Paper), representing the Australian Industry, lodged an application to the Anti-Dumping Commission (the Commission) for anti-dumping measures to be imposed on A4 copy paper exported 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 countervailing measures to be imposed on A4 copy paper exported from China and Indonesia.

On 12 April the Commissioner of the Anti-Dumping Commission (the Commissioner) decided not to reject the application from Australian Paper and initiated an investigation into whether the proposed measures should be imposed by the publication of Anti-Dumping Notice (ADN) no 2016/33. Particulars of the reasons for the decision to initiate the investigation are outlined in ADN no 2016/33, and in further detail in Consideration Report No. 341 (CON 341), both of which have been placed on the electronic public record (EPR).

Following the initiation, the Commission wrote to Fuji Xerox Australia Pty Ltd (FXA) and other importers of A4 copy paper inviting them to cooperate with the investigation. FXA cooperated with the investigation and completed an importer questionnaire response (IQR) and relevant attachments.

2 VERIFICATION OF AUSTRALIAN SALES

2.1 Verification of sales to audited financial statements

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

Details of this verification process are contained in the verification work program at **Confidential Attachment 1**.

The verification team did not find any issues with the verification of the sales listing to audited financial statements.

2.2 Verification of sales to source documents

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

Details of this verification process are contained in the verification work program at **Confidential Attachment 1**.

The verification team did not find any issues with the verification of the sales listing to source documents.

2.3 Related party customers

The verification team did not evidence that FXA is related to any of its customers during the investigation period.

3 VERIFICATION OF IMPORTS

3.1 The goods

FXA confirmed that it imports A4 copy paper from China during the investigation period, which matches the description of the goods that are the subject of this application.

3.2 Verification of importation and selling costs

The verification team verified the accuracy of the importation and selling costs by reconciling selected imports to the source documents in accordance with ADN 2016/30.

Details of the verification are contained within the verification work program as **confidential attachment 1.**

3.2.1 Any other costs

FXA included a fee for "Carrier advance – ocean" in the "Any other costs" line in the cost to import and sell spreadsheet of the IQR. This amount is not an actual expense but is rather an advance payment and has therefore been removed from the calculations (the actual amount for ocean freight was listed separately in the IQR).

3.2.2 Bank Charges

FXA included GST charges on importation costs as "bank charges" in the cost to import and sell spreadsheet of the IQR. Importation costs are exclusive of GST and therefore this has been removed from the calculation.

3.2.3 Selling, general and administration costs

The calculation of FXA's selling, general and administration (SG&A) costs as a percentage of total actual revenue has been amended to be a percentage of total post rebate revenue.

3.3 Rebates

FXA providedrebates to its customers in 2015. The verification team has reviewed and is satisfied that the rebate structure has been verified.

3.4 Import listing

FXA confirmed that the import listing extracted from the Australian Border Force (ABF) import database is a complete list of imports of the goods over the investigation period.

3.5 Forward orders

The verification team verified FXA's forward orders be reconciling the listing provided in the IQR to the company's records. The verified list of forward orders is at **Confidential Appendix 1**.

3.6 The importer

The verification team considers FXA to be the beneficial owner of the goods at the time of importation and therefore the importer.

3.7 The exporter

Subject to further inquiries, the verification team considers that [redacted] are the exporters of A4 copy paper imported by FXA[1].

3.8 Profitability of imports

The verification team calculated profit for a sample of shipments.

The verification team found that a vast majority of these shipments were unprofitable. On a weighted average basis the selected shipments were unprofitable overall. The assessment is at **Confidential Appendix 2**.

FXA advised the verification team of reasons for losses during the investigation period as well as steps to be taken to return FXA to profitability. These are also outlined in FXA's submission dated 3 June 2016.[2]

3.9 Related party suppliers

The verification team did not evidence that FXA is related to its suppliers of A4 copy paper exported from China during the investigation period.

3.10 Arms length

In respect of imports of A4 copy paper imported to Australia by FXA during the investigation period, the verification team found no direct evidence that:

- there was any consideration payable for, or in respect of, the goods other than its 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.

However, the verification team considers that, as it was found that the goods were sold at a loss by FXA, it should be treated as indicating that the importer will directly or indirectly be reimbursed, be compensated or otherwise receive a benefit for whole or any part of the price.[3] The verification team considered the reasons FXA gave for making sales at a loss and the steps FXA claimed it is taking to return to profitability, however the

[1] 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.
[2] EPR 341, document 029
[3] Subsection 269TAA(2) of the *Customs Act 1901*.

verification team notes that the losses are significant and consistent throughout the entire investigation period.[4] The verification team also notes that FXA does not anticipate recovering these losses within a reasonable period of time.[5] In its submission of 3 June 2016, FXA submitted that it planned to recover only a portion of its losses by the end of 2018.[6]

Therefore, subject to further inquiries, the verification team is not satisfied that import transactions between FXA and its suppliers are arms length transactions.

FXA dispute the verification team's findings and make the following comments which they may include in a future submission from FXA.

"FXA disputes this finding and the facts upon which it is made. According to FXA:

1. there is no evidence there was any consideration payable for, or in respect of, the goods other than its 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;
2. all transactions that are subject to the investigation which involve FXA were at arms length;
3. FXA has put plans in place to return the relevant part of its supplies business to profit in [redacted]; and
4. Any losses will be recovered within a reasonable period of time. "

[4] Confidential P&L attached to FXA's submission of 3 June 2016 refers.
[5] Subsection 269TAA(3)(c) refers.
[6] Confidential submission at page 7

4 RECOMMENDATIONS

The verification team are of the opinion that for the goods imported by FXA from [redacted]

- the goods have been exported to Australia otherwise than by the importer;
- the goods have been purchased by the importer from the exporters;
- the purchases of the goods by the importer were not arms length transactions; and
- the goods have been subsequently sold by the importer, in the condition in which they were imported, to persons who are not associates of the importer.

[redacted]

Subject to further inquiries in relation to these shipments, the verification team recommends that the export price for A4 copy paper imported by FXA from UPM be established under subsection 269TAB(1)(b) of *the Customs Act 1901* (the Act) as the price at which the goods were sold by FXA to its customers less prescribed deductions (deductive export price). In accordance with subsection 269TAB(2) the prescribed deductions in relation to FXA's sales of the goods are:

- Customs duty applicable to goods imported from China:
    - 5% from 1 January 2015 to 19 December 2015;
    - 4% from 20 December 2015 to 31 December 2015;
- all costs, charges and expenses arising in relation to the goods after exportation; and
- an amount for importer profit based on the weighted average verified profit margin achieved by profitable importers visited as part of this investigation.

The deductive export price calculations are at **Confidential Appendix 2**.

[redacted]

The verification team notes that the Commissioner has decided to treat [redacted] as an uncooperative exporter pursuant to subsection 269T(1) of the Act.[7] As a result the Commission has determined the export price for [redacted] exports to Australia under subsection 269TAB(3).[8]

[7] Refer to Case No. 341 Electronic Public Record at Item 53
[8] Refer to ADN No. 2016/100 (Preliminary Affirmative Determination) at footnote 11

5 GENERAL COMMENTS

The company representatives made the following general comments during the visit:

- Recycled paper is more expensive to manufacture than paper made from virgin pulp. Recycled paper attracts a small price premium.

The company has lost business in the last year to Australian industry. One example is the [redacted] contract that was won by Australian industry.

- The company has lost volume and therefore likely market share over the last year.
- The company provides rebates to some customers as it is demanded by the retailers and standard in the industry.
- Although FXA supplies division did make a loss in the report period, there are reasons for those losses and FXA has a plan to return the division to profit in [redacted] and to recover those losses within a reasonable period as outlined in FXA's 3 June submission.

6 APPENDICES AND ATTACHMENTS

Confidential Attachment 1	Verification Visit Work Program
Confidential Appendix 1	Forward orders
Confidential Appendix 2	Profitability and deductive export price calculations