



Australian Government
**Department of Industry,
Innovation and Science**

**Anti-Dumping
Commission**

CUSTOMS ACT 1901 - PART XVB

**PRELIMINARY AFFIRMATIVE DETERMINATION
NO. 341A
&
AMENDMENT TO SECURITIES**

**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

**THE ALLEGED SUBSIDISATION OF A4 COPY PAPER
EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA AND
THE REPUBLIC OF INDONESIA**

November 2016

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1. Summary and preliminary determinations

1.1 Introduction

This second Preliminary Affirmative Determination (PAD) Report Number 341A sets out the reasons for the Commissioner of the Anti-Dumping Commission (the Commissioner) making a PAD under s. 269TD(1) of the *Customs Act 1901* (the Act)¹ in relation to exports of A4 copy paper (the goods) exported to Australia from the Federative Republic of Brazil (Brazil) and the Republic of Indonesia (Indonesia).

This PAD is in addition to the PAD made on 29 September 2016, PAD 341. The Commissioner made PAD 341 because the Commissioner was satisfied that there appeared to be sufficient grounds for the publication of a dumping duty notice in respect of the goods exported to Australia from the People's Republic of China (China) and the Kingdom of Thailand (Thailand). Following PAD 341, the Commonwealth required and took securities under s. 42 in respect of interim dumping duty that may become payable in relation to the goods exported from China and Thailand and entered for home consumption on or after 30 September 2016. The amount of these securities will be amended for the reasons set out in this report.

The Commissioner is not satisfied that there are sufficient grounds at this stage to make a PAD in relation to the alleged subsidisation of the goods exported from China and Indonesia, as further analysis is required to adequately consider whether the goods have been exported from China and Indonesia to Australia at subsidised prices.

The preliminary findings, conclusions and provisional calculations discussed in this report are made for the purpose of this PAD and are based on information available at the time of making this PAD and are subject to change following submissions or new information.

1.2 PAD and provisional measures

In making this PAD, the Commissioner is satisfied there are sufficient grounds for the publication of a dumping duty notice in relation to the goods exported to Australia from the Indonesia and Brazil (s. 269TD(1)(a)).

The Commissioner is satisfied that the Commonwealth should require and take securities under s. 42 in respect of interim dumping duty that may become payable in relation to A4 Copy Paper exported to Australia from Indonesia and Brazil. The Commissioner is satisfied that securities are necessary to prevent material injury to the Australian industry occurring while the investigation continues (subsection 269TD(4)(b)).

Securities will apply to imports of A4 Copy Paper exported to Australia from Indonesia and Brazil and entered for home consumption on and after **7 November 2016**.

Public notice of these decisions is made in ADN 2016/120.

¹ All legislative references in this report are to the *Customs Act 1901*, unless otherwise stated.

1.3 Application of law to facts

1.3.1. Authority to make decision

Division 2 of Part XVB of the Act describes, among other things, the procedures to be followed and the matters to be considered by the Commissioner in conducting investigations in relation to the goods covered by an application under subsection 269TB(1) for the purpose of making a report to the Parliamentary Secretary.

1.3.2. Application

Australian Paper alleges that the Australian industry for A4 copy paper has suffered material injury caused by A4 copy paper exported to Australia from Brazil, China, Indonesia and Thailand at dumped and/or subsidised prices.

The application sought the publication of a dumping duty notice in respect of the goods exported to Australia from Brazil, China, Indonesia Thailand and the publication of a countervailing duty notice in respect of the goods exported from China and Indonesia.

Having considered the application, the Commissioner decided not to reject the application and initiated an investigation on 12 April 2016. Public notification of initiation of the investigation was also made on 12 April 2016.

*Consideration Report No. 341 (CON 341)*² and *Anti-Dumping Notice (ADN) No. 2016/133*³ provide further details relating to the initiation of the investigation and are available on the Anti-Dumping Commission's (the Commission) website at www.adcommission.gov.au.

1.3.3. Day 60 Status Report and PAD

In accordance with subsection 269TD(1), the Commissioner may make a PAD if satisfied that there appears to be sufficient grounds for the publication of a dumping duty notice or a countervailing duty notice, or it appears that there will be sufficient grounds subsequent to the importation of the goods into Australia.

A PAD may be made no earlier than day 60 of the investigation (in relation to this investigation, 14 June 2016)⁴ and the Commonwealth may require and take securities at the time of a PAD or at any time during the investigation after a PAD has been made if the Commissioner is satisfied that it is necessary to do so to prevent material injury to an Australian industry occurring while the investigation continues.

In accordance with section 6 of the *Customs (Preliminary Affirmative Determinations) Direction 2015* (the PAD Direction) the Commissioner published a Day 60 Status Report

² See number 3 on the public record for this investigation (EPR 341)

³ See number 4 on the public record

⁴ First business day after 11 June 2016.

on 14 June 2016⁵, being 60 days after the initiation of the investigation, providing reasons why a PAD was not made.

1.3.4. Statement of Essential Facts (SEF)

The Commissioner must, within 110 days after the initiation of an investigation, or such longer period as the Parliamentary Secretary allows under subsection 269ZHI(3), place on the public record a SEF on which the Commissioner proposes to base a recommendation to the Parliamentary Secretary in relation to the application.⁶

The SEF was originally due to be placed on the public record by 1 August 2016.

However, the Commissioner has been granted three extensions to publish the SEF totalling 130 days. The Commissioner is now required to place the SEF on the public record by 9 December 2016.

1.3.5. Final report

The Commissioner's final report and recommendations in relation to this investigation must be provided to the Parliamentary Secretary on or before 23 January 2017,⁷ unless the investigation is terminated earlier or an extension of time is granted by the Parliamentary Secretary to provide the final report.

1.4 Preliminary Assessments

The Commission's preliminary assessments and conclusions in this PAD report are based on available information at this stage of the investigation. A summary is provided below and there is greater detail in the remainder of this report.

1.4.1. The goods and like goods (Chapter 3)

The Commissioner preliminarily considers that locally produced A4 Copy Paper are 'like' to the goods that are the subject of the application and is satisfied that there is an Australian industry producing those like goods, which comprises one Australian producer, Australian Paper.

1.4.2. Australian Industry (Chapter 4)

The Commissioner has preliminarily found that there is an Australian industry producing like goods and that the goods are wholly manufactured in Australia. The Commissioner has also found that the Australian industry producing the goods wholly consists of Australian Paper.

⁵ See number 31 on the public record

⁶ Subsection 269TDAA(1)

⁷ Under section 269TEA

1.4.3. Australian Market (Chapter 5)

The Commissioner's preliminary assessment is that the Australian A4 copy paper market is supplied from local production by Australian Paper and by imports from multiple countries, with approximately 52 per cent of the Australian market being supplied from Brazil, China, Indonesia and Thailand.

1.4.4. Dumping assessment (Chapter 6)

The Commissioner's further preliminary assessment of dumping margins is set out, below, in Table 1. This table reflects updated dumping margins resulting from submissions received and the Commission's preliminary market situation finding.

Country	Exporter	Dumping Margin
Brazil	International Paper Do Brasil Ltda. (IP Brazil)	2.9%
	Uncooperative and all other exporters	31.9%
China	UPM (China) Co., Ltd. (UPM China)	34.4%
	Asia Symbol (Guangdong) Paper Co., Ltd. (Asia Symbol)	Negative 0.9%
	Uncooperative and all other exporters	40.0%
Indonesia	Pt Indah Kiat Pulp & Paper Tbk (Indah Kiat)	80.5%
	Pt Pindo Deli Pulp And Paper Mills (Pindo Deli)	65.0%
	Pt Pabrik Kertas Tjiwi Kimia Tbk (Tjiwi Kimia)	4.4%
	Riau Andalan Kertas (RAK)	9.3%
	Uncooperative and all other exporters	86.6%
Thailand	Double A (1991) Public Company Limited (Double A)	13.4%
	Phoenix Pulp & Paper Co. Ltd (PPPC)	18.1%
	Uncooperative and all other exporters	23.7%

Table 1: Preliminary Dumping Margin Summary

1.4.5. Economic condition of the Australian industry (Chapter 7)

The Commission preliminarily considers that the Australian industry has experienced injury in the forms of:

- loss of sales volumes;
- price suppression;
- price depression;
- reduced profits and profitability;
- reduced revenue; and
- reduced employment.

1.4.6. Causation assessment (Chapter 8)

The Commissioner preliminarily considers that the Australian industry has suffered material injury in the form of:

- price suppression;
- price depression;
- reduced profits and profitability;
- reduced revenue from A4 copy paper; and
- reduced employment related to the production of A4 copy paper;

as a result of dumped exports of A4 copy paper exported from Brazil, China, Indonesia and Thailand.

1.4.7. Non-injurious price (Chapter 9)

The Commission has calculated a non-injurious price (NIP) for exports of A4 copy paper from Brazil, China and Thailand that is considered to be the minimum price necessary to prevent the injury, or a recurrence of the injury, caused by the dumped goods.

The Commission has assessed the NIP based on Australian Paper's selling prices in period between 1 July 2012 and 30 June 2013 adjusted for inflation to the 2015 year.

In relation to Indonesia, given the Commission's finding of market situation existing in Indonesia, the Commissioner has not considered the lesser duty rule at this stage of the investigation for the purposes of taking securities.

1.4.8. Proposed Form of Securities (Chapter 10)

For the purposes of this PAD, the Commissioner considers that securities should be taken:

- in respect of dumping duty for China, Indonesia and Thailand, using the combination duty method (i.e. the combination of the fixed and variable duty method); and
- in respect of dumping duty for Brazil, using the ad valorem duty method (i.e. as a proportion of the export price of those particular goods.).

1.4.9. Reasons for Making this PAD and Amending Securities (Chapter 11)

This chapter sets out the reasons for making this PAD and amending the securities taken following PAD 341.

1.5 Information considered

In making this PAD report, the Commissioner has had regard to:

The application and other evidence provided by the applicant.

The Commission has verified the data provided by the applicant, with the visit report published on the public record⁸. The Commission is satisfied as to the accuracy and

⁸ See record number 82

relevance of the sales data, cost to make and sell data, and other information provided by Australian Paper in connection with this investigation.

Exporter questionnaire responses.

Exporter questionnaire responses were received from 11 exporters. The Commission has verified the data contained in the exporter questionnaire responses received from the 9 exporters considered to be co-operative.

Evidence provided by Importers.

Importer Questionnaire responses were received from 9 importers. The data provided in these questionnaire responses has been verified in relation to 6 importers.

Submissions Received.

Sixty-eight submissions have been received to date in relation to this investigation. The Commission has received submissions from interested parties during the course of the investigation. Where possible, each submission has been considered by the Commissioner in reaching the findings contained within this SEF. The submissions received are summarised in **Appendix 1**.

Other evidence where applicable

The Commission has relied on other information, where applicable, for the purpose of making this PAD. Where other evidence has been considered, this evidence is specifically identified and referred to in the applicable section of this report.

2. Background

2.1 Initiation

On 24 February 2016, Australian Paper lodged an application under subsection 269TB(1) of the Act. The application sought the publication of a dumping duty notice in respect of the goods exported to Australia from the Brazil, China, Indonesia and Thailand and the publication of a countervailing duty notice in respect of the goods exported from China and Indonesia (collectively referred to as the nominated countries).

Australian Paper alleged in its application that the Australian industry had suffered material injury caused by exports of A4 Copy Paper exported to Australia from the nominated countries at dumped and/or subsidised prices. Australian Paper alleged that the industry had been injured through:

- Loss of sales volume;
- Reduced market share;
- Price depression;
- Loss of profits;
- Reduced profitability;
- Reduced employment;
- Reduced capacity utilisation; and
- Reduced return on investment.

Subsequent to receiving further information on 25 February 2016 and 8 March 2016 from Australian Paper and having considered the application, the Commissioner decided not to reject the application and initiated an investigation into the alleged dumping and/or subsidisation of A4 Copy Paper from the nominated countries on 12 April 2016. Public notification of initiation of the investigation was also made on 12 April 2016.

ADN No. 2016/33 provides further details relating to the initiation of the investigation.

In respect of the investigation:

- the investigation period⁹ for the purpose of assessing dumping and subsidisation is 1 January 2015 to 31 December 2015; and
- the injury analysis period for the purpose of determining whether material injury to the Australian industry has been caused by exports of dumped and subsidised goods is from 1 January 2012.

In Australian Paper'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, together with the investigation period, as the injury analysis period.

⁹ Subsection 269T(1)

2.2 Submissions received in relation to Australian Paper's application and the initiation of the Investigation

Submission from UPM

In a submission dated 24 August 2016, UPM (China Co., Ltd), UPM Asia Pacific Pte Ltd and UPM Kymmene Pty Ltd (collectively referred to as the UPM group of companies) submitted that the decision to conduct this investigation under subsection 269TC(4) of the Act was void *ab initio*¹⁰. More specifically, UPM submitted that:

- The Commissioner has exceeded his power to approve a form for the purposes of section 269TB as Form B108 permits an applicant to make a combined application for a dumping duty notice and a countervailing duty notice;
- Australian Paper made a single application for the publication of a dumping duty and countervailing duty notice using the invalid Form B108. Australian Paper's application is invalid because Division 2 of Part XVB of the Act requires separate applications to be made; and
- The Commissioner should revoke his decision to not reject Australian Paper's application and should decide to reject Australian Paper's application.

Commission's consideration of UPM's submission

(i) Approval of Form B108

Under subsection 269SMS(1), the Commissioner may, in writing, approve a form for the purposes of a provision of Part XVB. As provided in the Commissioner's instrument under section 269SMS, the Commissioner has approved Form B108 for the purpose of lodging an application under subsection 269TB(1) or (2), for the purposes of subsection 269TB(4)(b).

There is no express requirement in section 269SMS or in section 269TB that the application form approved by the Commissioner must only allow one application to be made per form.

As such, the Commissioner has not exceeded his power to approve a form for the purposes of section 269TB by allowing an applicant to make an application for a dumping duty notice and an application for a countervailing duty notice in the same form, being Form B108.

(ii) Australian Paper's application

Subsection 269TB(1) states, in part, that where a person believes that there are "reasonable grounds for the publication of a dumping duty notice or a countervailing duty notice in respect of the goods in the consignment that person may, by application in writing lodged with the Commissioner, request that the Minister publish that notice in respect of the goods in the consignment".

There are circumstances where a person may wish to apply for the publication of both notices in relation to the same goods. In these circumstances, there is no express requirement in subsections 269TB(1) or (4), or elsewhere in Division 2 of Part XVB, that

¹⁰See record number 68

each application must be lodged by using a separate form, and UPM's submission does not identify an express requirement.

Further, while the Commission agrees with UPM's submission that a dumping duty notice under subsection 269TG and a countervailing duty notice under subsection 269TJ are separate notices, it is not clear from UPM's submission why it necessarily follows that an application for each notice must be lodged in a separate form.

For completeness, in making its application for the publication of a dumping duty notice and its application for the publication of a countervailing duty notice Australian Paper used the form approved by the Commissioner for the purposes of section 269TB (Form B108) which, as discussed above, is not an invalid form.

(iii) Decision to not reject the application

As the Commission's view is that there is no explicit requirement in Division 2 of Part XVB that a separate form must be used if the applicant applies for a dumping duty notice at the same time as a countervailing duty notice, the fact that Australian Paper lodged one form to cover both applications is not, in and of itself, a basis for rejecting an application that otherwise complies with subsection 269TB(4).

2.3 Previous Measures and Cases

Prior to the initiation of this investigation, the last measures relating to A4 copy paper expired in February 2004.

Previous investigations relating to A4 copy paper have included:

- In October 2013 the Commissioner initiated an investigation¹¹ into the alleged dumping of uncoated A4 and A3 cut sheet paper (copy paper) exported to Australia from China following consideration of the application from Australian Paper. This investigation was terminated on 7 August 2014 as a result of the Commissioner determining that the imports of the goods subject of the investigation had either not been dumped, the dumping margin was negligible (less than 2 per cent) and/or that the total volume of exports to Australia from all Chinese exporters that had been dumped was negligible (less than 3 per cent).
- In July 2003, Australian Paper lodged an application in relation to the alleged dumping of A4 copy paper exported to Australia from China. Customs terminated the investigation as negligible dumping margins were identified during the relevant investigation period.
- In May 1993, Associated Pulp and Paper Mills lodged an application in respect of exports of certain A4 copy paper from Austria, Brazil, Finland, France, Germany, Indonesia, South Africa and the United States of America (USA). Following the investigation and review by the Anti-Dumping Authority (ADA) in February 1994, the then Minister for Customs accepted the recommendations contained in ADA Report No. 119 and a dumping duty notice was published in respect of copy paper exported to Australia from Brazil, Finland, Germany, Indonesia, South Africa and the USA (including price undertakings). A number of reviews, continuation inquiries and

¹¹ Investigation 225 on the record.

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Federal Court proceedings ensued in the years following that affected either individual exporters or countries of export. The final measures relating to the 1993 investigation expired on 20 February 2004.

There have not been any prior countervailing investigations or countervailing measures applying to A4 copy paper.

3. The goods and like goods

3.1 Preliminary Finding

The Commissioner preliminarily considers that the Australian industry, comprised of Australian Paper, manufactured A4 copy paper that is 'like' to the goods under consideration and subject to the application.

3.2 Legislative framework

Subsection 269TC(1) of the Act provides that the Commissioner shall reject an application for a dumping duty notice if, inter alia, the Commissioner is not satisfied that there is, or is likely to be established, an Australian industry in respect of like goods.

In making this assessment, the Commissioner must firstly determine that the goods produced by the Australian industry are "like" to the imported goods. Subsection 269T(1) of the Act defines like goods 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".

An Australian industry can apply for relief from injury caused by dumped or subsidised imports even if the goods it produces are not identical to those imported. The industry must however, produce goods that are "like" to the imported goods.

The *Dumping and Subsidy Manual* (the Manual)¹² outlines certain "likeness tests" which provide a framework for assessing whether the goods manufactured by Australian Paper are like to the imported goods. Where the locally produced goods and the imported goods are not alike in all respects, the Commissioner assesses whether they have characteristics closely resembling each other against the following considerations:

- physical likeness;
- commercial likeness;
- functional likeness; and
- production likeness.

3.3 The goods

The goods subject of the application 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).

¹² Copy available at www.adcommisison.gov.au

The applicant provided further information on the goods as follows:

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.

3.4 Tariff classification

The goods have been classified to the following tariff subheadings:

- 4802.56.10, statistical code 03
- 4802.56.10, statistical code 09.

Since issuing the consideration report for this investigation the Commission had added statistical code 09 to the tariff code classifications, following a submission from Central National Australia Pty Ltd.¹³

The submission from Central National Australia queried the consistency between the further information provided by Australian Paper on the goods description and the tariff description of the goods. The Central National Australia submission also stated that 90 and 100 gsm papers, which are referenced under statistical code 09, would fall outside the 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. Australian Paper'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.

3.5 Like goods assessment

3.5.1. Information Provided by Australian Paper

AP provided information on the physical, commercial, functional and production likenesses between imported A4 copy paper and A4 copy paper manufactured by Australian industry in their application. 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

¹³ See record number 10

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)....”

During the course of the Australian industry verification visit, the Commission obtained further information on Australian Paper's production processes, the physical characteristics of A4 copy paper it produced and the Australian market for A4 Copy Paper.

3.5.2. Submissions from Interested Parties on like Goods

A submission was received from Double A¹⁴ submitting, in part, that products sold under its Double A brand should be distinguished from other products on the market in Australia. Double A stated that its Double A branded products were sold at a significant consumer price premium, were of superior quality and carried significant advertising/marketing costs when compared to the lower priced private and commodity labelled products.

The Commission considers that, whilst A4 Copy Paper may be differentiated in relation to slight variations in its stated characteristics, these variations are not sufficient to establish that these products do not closely resemble the goods the subject of the application.

3.5.3. Commission's Assessment of like goods

The Commission's assessment is that, whilst the locally produced goods are not necessarily identical to the goods that are the subject of the application, the Commission is satisfied that the locally produced goods closely resemble the goods that are the subject of the application and are like goods given that:

The primary physical characteristics of imported and locally produced goods are similar

The Commission considers that the primary physical characteristics of the goods are the standard dimensions of A4 copy paper and the nominal whiteness in the colour of the paper. Whilst 'whiteness' may marginally vary between different brands and models of paper, most end users would not perceive any marked difference. The Commission considers that other characteristics of the goods, such as packaging, gsm, brightness, recycled content and 'type of' whiteness are secondary characteristics which do not affect the essential physical likeness of domestically produced A4 copy paper to imported A4 copy paper. These secondary characteristics may be used by manufacturers to differentiate between products for marketing and pricing purposes.

The imported and locally produced goods are commercially alike as they are sold to common end users.

The goods are commercially similar as they directly compete in the same market sectors and have similar distribution channels. It has been observed by the Commission that customers and end users of the goods have switched between domestically sourced and import sourced A4 copy paper during the investigation period.

¹⁴ See public record number 12

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The imported and locally produced goods are functionally alike as they have the same end uses

The Commission considers that imported and domestically produced A4 copy paper have the same end uses and that they are functionally substitutable. Common uses include copying and printing.

The imported and locally produced goods are manufactured in a similar manner.

Through visiting Australian Industry and co-operative exporters, the Commission is satisfied that imported and domestically produced copy paper are produced in a similar manner, using similar raw materials and production processes.

Having regard to the above, the Commissioner is satisfied that the Australian industry produces 'like' goods to the goods the subject of the application, as defined in subsection 269T(1).

4. The Australian Industry

4.1 Preliminary finding

The Commissioner has preliminarily found that there is an Australian industry producing like goods and that the goods are wholly manufactured in Australia. The Commissioner has also preliminarily found that the Australian industry producing the goods wholly consists of Australian Paper.

4.2 Legislative framework

The Commissioner must be satisfied that the “like” goods are in fact produced in Australia. Subsection 269T(2) of the Act provides that for goods to be regarded as being produced in Australia, they must be wholly or partly manufactured in Australia. Under subsection 269T(3), in order for the goods to be considered as partly manufactured in Australia, at least one substantial process in the manufacture of the goods must be carried out in Australia.

4.3 Australian Industry

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

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

Australian Paper’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.

In its application Australian paper advised that it is currently the sole manufacturer of A4 copy paper in Australia. The Commission’s enquiries have not identified any other manufacturers of A4 copy paper in Australia.

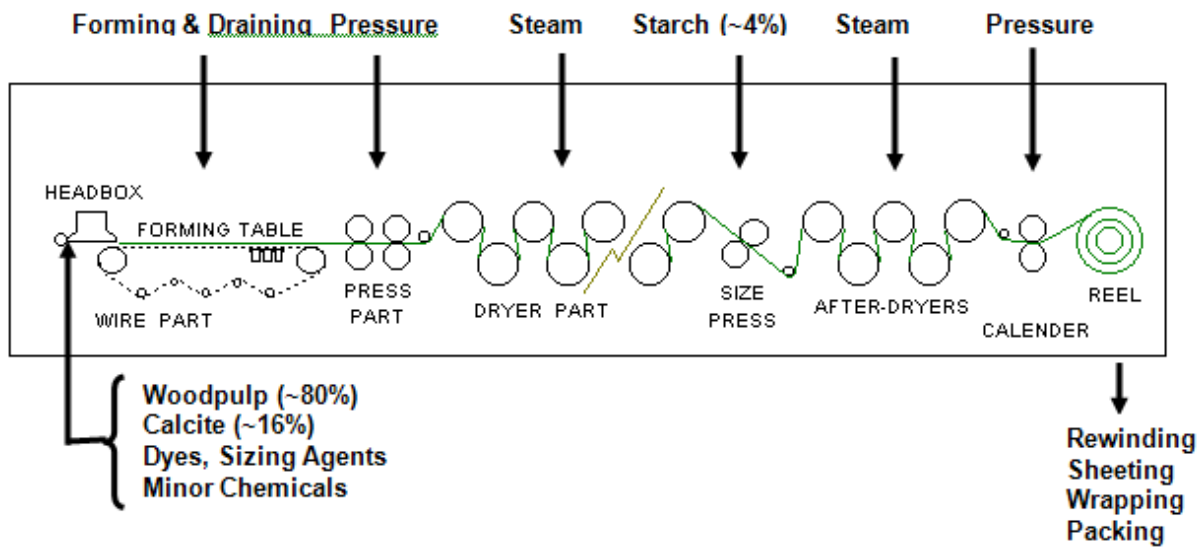
4.3.1. Production Facilities

Australian Paper’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.

4.3.2. Production Process

In its application Australian Paper provided information on its manufacturing process. This is summarised below:

“Australian Paper’s production process is as set out by the diagram below.



The major raw material used in papermaking is wood pulp, including recycled wood pulp. At the Australian Paper mill which produces the goods, Maryvale in Gippsland, Victoria, the majority of wood pulp used is produced on site and this is supplemented by up to 10% imported pulps, while at certain overseas mills (including China), all or most of the wood pulp is manufactured elsewhere and may be purchased on the international market or, quite frequently, from related companies in the country of export. The other two key materials used are Calcite and Starch, which for Australian Paper are both produced and supplied from within Australia.

The papermaking process in all printing & writing paper mills starts by preparing and blending pulps, filler, starch, sizing agents, dyes and minor chemicals which are then, in very dilute form (less than 1% solids) pumped to a 'headbox' or horizontal nozzle which forms the paper sheet on a horizontal rapidly moving mesh belt or 'wire' from which some of the water is drained by gravity and by suction. At the end of the wire, the paper sheet is still only around 20% solids (80% water). The sheet then passes through a series of press rolls and more water is removed by pressure, leaving the sheet about 40% solids (60% water). The remainder of the water is removed by evaporation as the sheet passes around a series of steam heated drying cylinders.

The sheet then has a layer of starch applied to each surface at the 'size press' and is again dried using steam heated cylinders and calendered between smooth rolls at high pressures to give a smooth surface. The sheet is then rolled into parent rolls or 'Jumbos' several metres long and over 2 meters in diameter, weighing several tonnes.

The Jumbos are then rewound into smaller reels, generally 1.5 metres in diameter and around 2.5 metres long for use in the sheeting process. These smaller reels are cut directly into A4, or other cut sheet sizes, usually but not always wrapped as reams (generally, but not exclusively of 500 sheets), packed into boxes and the boxes palletised on highly automated 'finishing' equipment (the 'Cut Size Lines').

At this point the cut sheet paper is ready for loading for shipment."

4.3.3. Verification of Production of A4 Copy Paper in Australia

During the Australian industry verification visits, the Commission undertook a plant tour of Australian Paper's production facilities in Maryvale. On this plant tour the Commission observed various manufacturing processes, including the chipping of wood logs, the manufacture of pulp, the manufacture of paper and the cutting and packaging of A4 copy paper.

4.3.4. Product range

Australian Paper manufactures a range of A4 copy paper. These include Australian Paper branded copy paper and customer branded copy paper. Australian Paper provided confidential technical information on the range of copy paper it produced. During the verification of Australian Paper's sales, the Commission observed sales of the products specified in the technical information provided.

4.4 The Commission's preliminary assessment

In its application, Australian Paper claimed to be 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 and no submissions or other information has been received to indicate that there are any other producers of A4 copy paper in Australia.

Following the Commission's verification of Australian Paper's manufacturing processes in Australia, the Commission is satisfied that: A4 copy paper is wholly manufactured by Australian Paper in Australia and Australian Paper conducts one or more substantial process in the production of A4 copy paper at its manufacturing plant in Maryvale, Victoria.

Accordingly, the Commissioner is satisfied, in accordance with subsection 269T(2), that there is an Australian industry producing A4 copy paper in Australia, and that this industry solely consists of Australian Paper.

5. The Australian market

5.1 Preliminary Finding

The Commissioner has preliminarily found that the Australian market for A4 copy paper is supplied by the Australian industry and imports from a number of countries, including the nominated countries. The Commission estimates that the size of the Australian market during the investigation period was approximately 220,000 tonnes.

5.2 Market structure

Based on information received during the investigation, the Commission considers that there are three broad categories of end users in the Australian market. These are the:

- Home and home office/small office/business sectors;
- Medium and large business, the government and education sectors; and
- The industrial sector including instant print and in-plant printing operations.

The key supply channels for the Australian market are the:

- retail sector;
- corporate stationery suppliers;
- resellers; and
- the Original Equipment Manufacturer (OEM) sector.

The Commission has observed that domestically produced and imported copy paper have both been supplied through each of the above mentioned distribution channels to each of the identified end users in the Australian Market.

The Commission understands that the retail sector typically supplies small end users, such as homes, home offices and small offices/businesses. Resellers typically supply the large business and government sector, whereas corporate stationery suppliers typically supply the smaller businesses in specific regional areas. However, it is noted there is a certain amount of leakage of sales between each of the market segments occurring. For instance, some suppliers in the retail sector are supplying customers traditionally supplied by the reseller segment and that customers traditionally seeking supply in the retail or corporate stationery supply segment are obtaining supply through the reseller segment using internet purchasing services.

5.3 Categories of Goods in Australian market

Having considered information provided during the investigation, the Commission considers that there are three broad categories of A4 copy paper sold in the Australian market. These are:

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

5.4 Importers

The Commission examined the Australian Border Force's (ABF) import database to identify importers of A4 copy Paper in the investigation period. The 10 largest importers accounted for over 99 per cent of imports from the nominated countries during the investigation period.

The Commission undertook verification visits of the following 6 importers who accounted for approximately 76 per cent of the total imports over the investigation period:

- BJ Ball Pty Ltd;
- Central National Australia;
- Fuji Xerox Australia Pty Ltd (Fuji Xerox Australia);
- Jackaroo Pty Ltd;
- Paper Force (Oceania) Pty Ltd (Paper Force); and
- UPM-Kymmene Pty Ltd (UPM-Kymmene).

Visit reports for the above importers can be found on the electronic public record available on the Commission's website at www.adcommission.gov.au.

5.5 Substitutable products

Australian Paper 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, Australian Paper submitted that there is no market substitute for the goods subject of this application.

The Commission has not received any other submissions on substitutable products.

5.6 Demand variability

Australian Paper advised that the Australian A4 copy paper market is a mature market. Australian Paper 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.

The Commission's assessment of the market during the injury analysis period is consistent with the view of Australian Paper. The Commission's analysis indicates that there appears to be no significant seasonal fluctuations in the sales of copy paper.

5.7 Market size

In its application, Australian Paper estimated the size of the Australian market using three sources:

- Australian Bureau of Statistics import data for the applicable tariff code;
- TradeData International (TradeData) information; and
- Australian Paper's own sales data and knowledge of the market.

For the purposes of estimating the size of the Australian A4 copy paper market, the Commission combined Australian Paper's domestic sales data with ABF's import data. Australian Paper's sales data was verified during an Australian industry visit. The

Commission filtered the ABF import data based on tariff subheading, statistical code¹⁵, goods description and country of export.

The Commission considers that the ABF import database is a reliable source for imported A4 copy paper data. ABF import data was further verified with importers and exporters. The Commission considers that this combined data is reliable, relevant and suitable for estimating the size of the Australian market for A4 copy paper.

The size of the Australian A4 copy paper market for the years 2012 to 2015 are shown in the following chart.

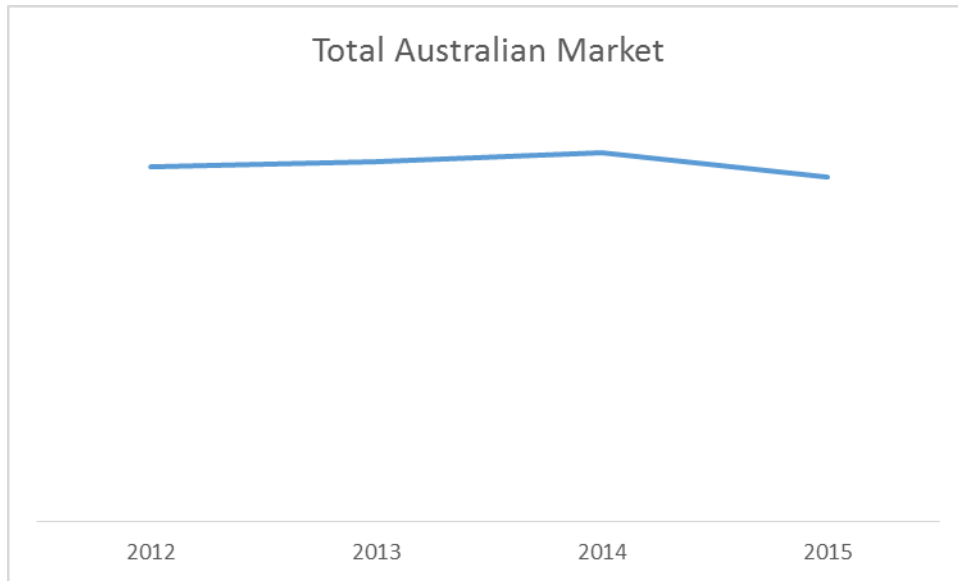


Figure 1: Estimated market of A4 copy Paper

¹⁵ For purposes of this analysis import data under both statistical code 03 and 09 of tariff subheading 4802.56.10 were reviewed for the purposes of identifying relevant imports.

6. Dumping investigation

6.1 Preliminary Findings

The Commissioner has found that:

- Exports of A4 copy paper from Brazil have been dumped and the volume of dumped goods from Brazil is not negligible.
- Exports of A4 copy paper from China, excluding those from Asia Symbol (Guangdong) Paper Co., Ltd (Asia Symbol), have been dumped and the volume of dumped goods from China is not negligible.
- Exports of A4 copy paper from Indonesia have been dumped and that the volume of dumped goods from Indonesia is not negligible.
- Exports of A4 copy paper from Thailand have been dumped and the volume of dumped goods from Thailand is not negligible.

The preliminary dumping margins are summarised in the below table.

Country	Exporter	Dumping Margin
Brazil	International Paper Do Brasil Ltda. (IP Brazil)	2.9%
	Uncooperative and all other exporters	31.9%
China	UPM (China) Co., Ltd. (UPM China)	34.4%
	Asia Symbol	Negative 0.9%
	Uncooperative and all other exporters	40%
Indonesia	Pt Indah Kiat Pulp & Paper Tbk (Indah Kiat)	80.5%
	Pt Pindo Deli Pulp And Paper Mills (Pindo Deli)	65.1%
	Pt Pabrik Kertas Tjiwi Kimia Tbk (Pabrik Kertas)	4.4%
	Riau Andalan Kertas (RAK)	9.3%
	Uncooperative and all other exporters	86.62%
Thailand	Double A (1991) Public Company Limited (Double A)	13.4%
	Phoenix Pulp & Paper Co., Ltd. (PPPC)	18.1%
	Uncooperative and all other exporters	23.73%

Table 2: Preliminary Dumping Margin Summary

The Commission's calculations of export prices, normal values and dumping margins are at **Confidential Appendix 1**.

6.2 Introduction and legislative framework

Dumping occurs when a product from one country is exported to another country at a price less than its normal value. The export price and normal value of goods are determined under sections 269TAB and 269TAC respectively.

Subsection 269TAC(1) provides that, subject to certain conditions, the normal value of the goods is the price at which like goods are sold in the domestic market of the country of export. However, subsection 269TAC(1) cannot be used to calculate the normal value of the goods if one of the circumstances in subsections 269TAC(2)(a) or (b) is present. Where one or more of these circumstances are present, the normal value of the goods must be calculated under either subsection 269TAC(2)(c) or (d). Subsection 269TAC(2)(c) provides for the normal value to be a constructed amount, being the sum of the cost of production or manufacture of the goods in the country of export, and, on the assumption that the goods had been sold for home consumption in the ordinary course of trade in the country of export instead of being exported, the selling, general and administrative (SG&A) costs and the profit on that sale.

If the Parliamentary Secretary directs that it applies, subsection 269TAC(2)(d) provides that the normal value is the price of like goods sold in the ordinary course of trade in arms length transactions from the country of export to an appropriate third country.

Dumping margins are determined under section 269TACB.

6.3 Cooperative exporters

Subsection 269T(1) provides that, in relation to a dumping investigation, an exporter is a 'cooperative exporter' where the exporter's exports were examined as part of the investigation and the exporter was not an 'uncooperative exporter'.

At the commencement of the investigation, the Commission contacted all known exporters of the goods and each identified supplier of the goods within the relevant tariff subheading for A4 copy paper, as identified in the ABF import database, and invited them to complete an exporter questionnaire.

The exporter questionnaires sought information regarding the exporters' commercial operations, the goods exported to Australia, like goods sold on the domestic market and to third countries, economic and financial details, and relevant costing information. The Commission received exporter questionnaire responses from the following exporters.

- Asia Symbol (Guangdong) Paper Co., Ltd. (Asia Symbol);¹⁶
- Double A (1991) Public Company Ltd. (Double A)
- International Paper do Brasil Ltda. (IP Brazil);
- Phoenix Pulp & Paper Public Co., Ltd. (PPPC);
- PT Indah Kiat Pulp & Paper Tbk (Indah Kiat);
- PT Pabrik Kertas Tjiwi Kimia Tbk (Tjiwi Kimia);

¹⁶ Exporter Questionnaire response was received via Greenpoint Global Trading (Macao Commercial Offshore) Ltd

- PT Pindo Deli Pulp and Paper Mills (Pindo Deli);
- Riau Andalan Kertas (RAK)¹⁷;
- Shandong Chenming Paper Holdings Limited (Shandong Chenming); and
- UPM (China) Co., Ltd. (UPM China)
- Yueyang Forest & Paper Co., Ltd. (Yueyang Forest);

The Commission visited the following exporters and verified information relating to costs, domestic sales and exports to Australia during the investigation period:

- Asia Symbol;
- Double A;
- Indah Kiat;
- IP Brazil;
- Pindo Deli;
- PPPC;
- RAK;
- Tjiwi Kimia; and
- UPM China.

The exporters visited are considered by the Commissioner to be cooperative exporters.

Non-confidential exporter questionnaire responses and verification reports¹⁸ for each of the cooperating exporters are available at the Commission's website at www.adcommission.gov.au and provide additional detail to the discussion below. The visit reports should be read in conjunction with the SEF.

6.4 Uncooperative exporters

Subsection 269T(1) provides that, in relation to a dumping investigation, an exporter is an 'uncooperative exporter', where the Commissioner is satisfied that an exporter did not give the Commissioner information that the Commissioner considered to be relevant to the investigation within a period the Commissioner considered to be reasonable, or where the Commissioner is satisfied that an exporter significantly impeded the investigation.

In relation to making determinations that an exporter is uncooperative exporter, the Commissioner has regard to both subsection 269T(1) and the *Customs (Extensions of Time and Non-cooperation) Direction 2015* (the Non-cooperation Direction).

As noted in the initial PAD for this investigation, the Commissioner has determined that two exporters who provided questionnaire responses to be un-cooperative. These were:

- Shandong Chenming and Zhanjiang Chenming Pulp and Paper Co, Ltd ('the Chenming companies'); and
- Yueyang Forest.

¹⁷ Exporter Questionnaire response was received via APRIL Fine Paper Trading Pte Ltd

¹⁸ The verification report for Asia Symbol at the time of the publication of this PAD has not been placed on the public record

The Commissioner's reasons for determining the Chenming companies and Yueyang to be uncooperative are specified in letters sent to each of these companies. Non-Confidential versions of these letters are available on public record¹⁹

As also specified in the initial PAD, the Commissioner has determined exporters who did not provide a response or request a longer period to provide a response within the legislated period to be uncooperative exporters pursuant to subsection 269T(1).

6.5 Model matching

For the purposes of model matching, the Commission had regard to available evidence and applied the most appropriate criteria depending on the specific circumstances of each exporter.

6.6 Market situation finding – China and Indonesia

In Australian Paper's application it was submitted that a particular market situation exists in both the Chinese and Indonesian markets and, that as a result, domestic sales of A4 copy paper in China and Indonesia are not suitable for determining normal values under subsection 269TAC(1) of the Act.

The applicant alleges that A4 copy paper prices in China and Indonesia are artificially lower as a result of the Governments of China's and Indonesia's influence on raw material inputs and subsidies during the investigation period.

After having considered these allegations, the Commission has formed a view that:

- there is a 'market situation' within the Indonesian A4 copy paper market such that sales in that market are not suitable for use in determining a price under 269TAC(1); and
- there is not a 'market situation' within the Chinese A4 copy paper market.

The Commissioner's preliminary assessment of the claimed particular market situations in China and Indonesia for A4 copy paper are in **Appendix 2**.

6.7 Dumping assessment – Brazil

6.7.1. Verification of information

The Commission conducted a verification visit to IP Brazil and verified information relating to costs, domestic sales and exports to Australia during the investigation period.

6.7.2. IP Brazil

Model Matching

Models have been matched basis of gsm, whiteness and package size.

¹⁹ See record numbers 49 and 53

Where there was no directly comparable like model due to there being no domestic sales of 80 gsm models, the equivalent 75 gsm domestic model was used as a comparison with a specification adjustment made on the basis of difference between the weighted average export price of that model and the weighted average export price of the equivalent 75 gsm model.

On the basis of a submission received from IP Brazil, the Commission adjusted the model matching criteria from that used by the verification team to:

- exclude one product with significantly higher packaging costs due to a smaller ream size; and
- include certain products with identical physical properties to the products considered in the initial calculations.

Export prices

Export prices for sales of A4 copy paper to Australia by IP Brazil were established under paragraph 269TAB(1)(a) using the invoiced price from the exporter to the importer less transport and other charges arising after exportation.

Normal Values

Normal values for exported models were determined under subsection 269TAC(1) based on domestic sales of the comparable models in the ordinary course of trade

Adjustments

To ensure the comparability of normal values to export prices, the Commission considered adjustments were required pursuant to subsection 269TAC(8) as follows:

Adjustment type	Application
Marketing assistance	Deduct the cost of domestic marketing assistance
Specification	Deduct/Add difference (%) in price to account for difference in gsm
Level of trade	Remove retail sales from normal value calculation data
Packing - domestic	Deduct the cost of domestic packing
Inland transport - domestic	Deduct the cost of domestic inland transport
Inventory carrying cost - domestic	Deduct the cost of carrying domestic inventory
Credit cost - domestic	Deduct the cost of domestic credit
Packing - export	Add the cost of export packing
Inland transport - export	Add the cost of export inland transport
Handling - export	Add the cost of export handling
Inventory carrying cost - export	Add the cost of carrying export inventory
Credit cost - export	Add the cost of export credit

Table 3: Summary of adjustments

Submissions

IP Brazil made a submission²⁰ disagreeing with the Commissions approach to establishing normal values for the private label brand it exported to Australia. The submission stated that the Commission had failed to take into consideration various characteristics which affect selling prices in both the Australian and Brazilian markets. These were:

- price premium differences between proprietary labelled products and privately labelled products;
- specifications used in dumping margin calculations not capturing certain models which are like goods; and
- differences in pack sizes.

IP Brazil provided information which they argued evidenced that these differences affected price comparability.

The Commission reviewed the submission and made appropriate changes in its dumping margin calculation to cater for the most relevant models in the calculation (see section on model matching). The Commission did not accept IP Brazil's claim for an adjustment for brand recognition as there is no difference in the cost to make different branded products (they have identical physical properties) and the difference in pricing cannot be accurately quantified (IP Brazil accepted that different brands only reflect a *perceived* difference in grade/quality).

Preliminary Dumping Margin

The Commission has calculated the dumping margin in accordance with subsection 269TACB(2)(a) of the Act, by comparing the weighted average of export prices over the whole of the investigation period with the weighted average of corresponding normal values over the whole of that period.

The dumping margin has been calculated as **2.9 per cent**.

6.8 Dumping assessment – China

6.8.1. Verification of information

The Commission conducted a verification visit to two Chinese exporters and verified information relating to costs, domestic sales and exports to Australia during the investigation period. The exporters visited were UPM China and Asia Symbol.

As detailed in Appendix 2, the Commission has not found a market situation in China and has therefore considered domestic selling prices of A4 copy paper in China as suitable for the purposes of determining normal values.

²⁰ See record number 77

6.8.2. UPM China

Model Matching

Models for model matching purposes were primarily selected on the basis of gsm levels and whiteness levels. The actual models used for model matching purposes were identical in all aspects.

Export prices

UPM sold A4 copy paper to Australian customers through two distribution channels during the investigation period, through UPM-Kymmene and direct to Fuji Xerox Australia. All export sales were made through a related trader in Singapore, therefore the goods were not purchased by the importers from the exporter. For this reason export prices could not be established under subsection 269TAB(1)(a) or 269TAB(1)(b) of the Act. Export prices have been determined in accordance with subsection 269TAB(1)(c) having regard to all the circumstances of the exportation.

Fuji Xerox Australia

In respect of export sales to Fuji Xerox Australia, the Commission considers that the selling prices do not reflect arms length prices because the goods were sold at substantial losses by Fuji Xerox Australia and those losses are not recoverable within a reasonable period of time. The commission has therefore determined the export price for these sales using a deductive export price methodology, being the price at which the goods were sold by Fuji Xerox Australia less the prescribed deductions as set out in subsection 269TAB(2).

UPM-Kymmene

Export prices for sales of A4 copy paper to Australia purchased through UPM-Kymmene were based on the invoiced price from the exporter to the importer less transport and other charges arising after exportation.

Normal Values

Normal values for exported models were determined under subsection 269TAC(1) based on domestic sales of the comparable models in the ordinary course of trade.

Adjustments

To ensure the comparability of normal values to export prices, the Commission considered adjustments were required pursuant to subsection 269TAC(8) as follows:

Adjustment Type	Deduction/addition
Domestic Inland Freight	Less an amount for domestic inland freight
Export Inland Freight	Add an amount for export inland freight
Domestic credit	Less an amount for domestic credit
Export credit	Add an amount for export credit

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Domestic packaging	Less domestic packaging expenses
Export packaging	Add an amount for export packaging
Export selling expenses	Add an amount for export selling expenses
Domestic selling expense	Less an amount for domestic selling expense
Non-deductable VAT on exported goods	Add an amount for non-deductable VAT expenses dedicated to the goods sold to Australia

Table 4: Summary of adjustments

Submissions

On 29 September 2016 a confidential submission was received from UPM. This submission concerned statements in the Commission's verification report as to why the verification team did not undertake a currency conversion on a certain basis and why an upwards adjustment was made to normal values in relation to VAT paid by UPM on export sales.

On 3 October and 5 October 2016 the Commission requested UPM to provide a public record version of its submission, which UPM did on 20 October 2016. Given the timing of this submission and the Commission's stated policy to not consider a submission until a non-confidential summary has been provided, the Commissioner has not considered it for the purposes of revising the securities applicable to exports by UPM. The submission will be considered for the purposes of the SEF.

Preliminary Dumping Margin

The Commission has calculated the dumping margin in accordance with subsection 269TACB(2)(a) of the Act, by comparing the weighted average of export prices over the whole of the investigation period with the weighted average of corresponding normal values over the whole of that period.

The dumping margin has been calculated as **34.4 per cent**.

6.8.3. Asia Symbol

Model Matching

The predominant differentiating characteristic between models of the goods was gsm. Whiteness and brightness were considered not to be significantly different within the scope of the goods exported by Greenpoint and like goods sold on the domestic market by Asia Symbol. Models were matched on the basis of gsm.

Export prices

Asia Symbol exported A4 copy paper to Australia through Greenpoint, therefore the goods were not purchased by the importer from the exporter. For this reason export prices could not be established under subsection 269TAB(1)(a) or 269TAB(1)(b) of the Act. Export prices have been determined in accordance with subsection 269TAB(1)(c) having regard to all the circumstances of the exportation. Export prices are based on the invoiced price from the exporter to Greenpoint less transport and other charges arising after exportation.

Normal Values

Normal values for exported models were determined under subsection 269TAC(1) based on domestic sales of the comparable models in the ordinary course of trade

Adjustments

To ensure the comparability of normal values to export prices, the Commission considered adjustments were required pursuant to subsection 269TAC(8) as follows:

Adjustment Type	Deduction/addition
Domestic Inland Freight	Less an amount for domestic inland freight
Export Inland Freight	Add an amount for export inland freight
Domestic credit	Less an amount for domestic credit
Export credit	Add an amount for export credit
Domestic packaging	Less domestic packaging expenses
Export packaging	Add an amount for export packaging
Domestic selling expense	Less an amount for domestic selling expense

Table 5: Summary of adjustments

Submissions

No submission have been received to date

Preliminary Dumping Margin

The Commission has calculated the dumping margin in accordance with subsection 269TACB(2)(a) of the Act, by comparing the weighted average of export prices over the whole of the investigation period with the weighted average of corresponding normal values over the whole of that period.

The dumping margin has been calculated as **negative 0.9 per cent**.

6.9 Dumping assessment – Indonesia

6.9.1. Benchmarks for competitive market costs for A4 copy paper

As the Commissioner considers that there is a particular market situation in Indonesia, normal values must be determined on the basis of a cost construction²¹ or third country sales.²² Normal values were constructed under subsection 269TAC(2)(c) and, as required by subsections 269TAC(5A) and 269TAC(5B), in accordance with sections 43, 44 and 45 of the *Customs (International Obligations) Regulation 2015* (the Regulations).

²¹ Subsection 269TAC(2)(c)

²² Subsection 269TAC(2)(d)

Subsection 43(2) of the Regulations requires that, if an exporter keeps records relating to the like goods which are in accordance with generally accepted accounting principles, and those records reasonably reflect competitive market costs associated with the production or manufacture of like goods, then the cost of production must be worked out using the exporter's records.

Neither the Act nor the Regulations prescribe a method for assessing whether an exporter's records reasonably reflect competitive market costs associated with the production or manufacture of like goods. Generally, when undertaking this assessment, the Commission may examine whether the Government influenced the price of any major cost inputs.

As discussed in Appendix 2, the Commission considers that the significant influence of the Government of Indonesia (GOI) has distorted prices in the paper industry and the paper market in Indonesia.

In particular, the Commission considers that various plans and policies have distorted the prices of domestic logs used to make pulp. As the Commission notes the domestic price of Indonesian A4 copy paper, once adjusted to a comparable basis, is significantly below comparable regional benchmarks. It is the Commission's view that the distortion of the domestic price for A4 copy paper is the direct result of the GOI's involvement within the forestry and pulp industries through its support for the development of timber plantations and its prohibition on the export of timber logs, which have increased the availability of timber relative to demand and hence resulted in artificially low prices for Indonesian logs and pulp. Without these interventions, the price for timber and pulp would be above levels experienced in the investigation period and that these higher input cost, would also be reflected in a higher domestic prices for A4 copy paper

The Commission finds that logs, as a raw material, are a significant input into the cost to manufacture of paper pulp, accounting for in the vicinity of 40 per cent of the cost to manufacture pulp. Consequently, the actual cost of pulp recorded by exporters in their records do not reasonably reflect competitive market costs associated with the production or manufacture of like goods. Pulp, proportionally, is the largest cost component for the production of like goods and on this basis the Commissioner considers that the exporter's records do not reasonably reflect competitive market costs. Consequently, the Commission considers that this renders these domestic pulp costs unsuitable for determining the cost to make A4 copy paper for the purposes of constructing normal values.

In this instance, the Commission has quantified the effects of GOI influence by comparing each exporter's actual cost of production with a benchmark. In each instance it was identified that cost of production of pulp was substantially less than the benchmark.

Accordingly, to account for the effects of the GOI's influence, the Commission has sought to replace Indonesian manufacturers' pulp costs with an appropriate competitive market cost for pulp. The order of preference to do so, below, is in accordance with the Commission's policy:

- i. private domestic prices;
- ii. import prices; and
- iii. external benchmarks.

(i) - Private domestic prices

The Commission considers that private domestic prices of pulp are affected by GOI influence. It is noted that the cooperative Indonesian exporters and their associated entities are the predominate manufacturers of pulp within Indonesia and would be the major beneficiaries of the GOI's distortion of domestic log prices and have a major influence on domestic pulp pricing within Indonesia.²³ Therefore, the Commission considers that private domestic prices of pulp in Indonesia are not suitable for determining a competitive market cost, free from government influence.

(ii) - Import prices

Based on the data supplied by cooperating exporters and gathered by the Commission, the Commission considers that the price of imported pulp sold in Indonesia is not suitable as a benchmark to reflect competitive market prices due to the lack of import penetration in the Indonesian pulp market and the likelihood that import prices are equally affected by the government influence on domestic prices. This conclusion is supported by the fact that Indonesia is the predominate exporter of pulp within the Asian region.

(iii) - External benchmarks

The Commission received benchmarking import quarterly pricing from RISI Inc. (RISI). This included bleached eucalyptus kraft pulp pricing into China and Korea. For the purposes of establishing a benchmark for these prices the Commission took an average of the three benchmark prices. This pricing provided was based on a CIF basis.

Submissions received from interested parties

Various submissions²⁴ have been received in relation to Australian Paper's allegations of a market situation existing in Indonesia. The matters raised in these submissions included claims that:

- there cannot be a duplication of protection against alleged subsidies by finding them to have also created a particular market situation;
- the US investigation did not find a market situation and that they determined normal values based on domestic selling prices;
- the WTO panel report in European Union – Anti-Dumping Measures on Biodiesel from Argentina (WT/DS473/R) (the 'Bio Diesel case'), specifies '...that the use of surrogate input material costs in normal value constructions because of government influence on those recorded in the accounts of domestic manufacturers is inconsistent with Article 2.2.1.1 of the Anti-Dumping Agreement'.
- in the past twenty years investigations concerning uncoated paper exported from Indonesia conducted by the governments of South Africa, Australia, Korea, Pakistan, Japan and United States have not made a finding of a particular market situation existing in Indonesia; and

²³ See Appendix 2 "Combined APP and APRIL account for around 90 per cent of Indonesian BHK capacity"

²⁴ See public record numbers 5, 6, 22, 25, 39 & 44

- the alleged artificially lowering of the prices of inputs to manufacture does not in some unspecified way preclude a proper comparison of domestic selling with export prices, particularly when the same inputs to manufacture are used to produce the same products sold in the domestic market as sold for export.

Submissions were also received in relation to the specific nature of the alleged market situation in Indonesia and the appropriate methodology for assessing a market situation. These were considered as part of the market situation analysis in Appendix 2.

A submission²⁵ was also received from the Sinar Mas Group of companies (Indah Kiat, Pindo Deli and Tjiwi Kimia) seeking the disclosure of the information sourced from RISI and Hawkins Wright Ltd. (Hawkins Wright) for the purposes of the market situation analysis.

Commission's consideration of submissions received from interested parties

EU – Biodiesel decision

The Commission has noted the recent WTO panel decision in EU – Biodiesel, as raised by various interested parties. The Commission has considered Australian domestic legislation in its approach in this PAD in relation cost construction.

Double counting

To avoid the possibility of double counting in relation to adjustments for the market situation identified and any subsidy programs that may be ultimately countervailed, the Commission proposes to recommend that any countervailing duty imposed be adjusted by deducting the subsidy program rates that may arise from the circumstances of where a constructed normal value includes a major cost component that is based on surrogate data.

Impact of market situation on domestic and export prices

Whilst the findings of a market situation may be indicative of lower input costs for goods produced for domestic and export markets, where a market situation finding has been made that renders sales in that market as not suitable for use in determining a price under subsection 269TAC(1), normal values cannot be established on the basis of domestic selling prices. Instead, the normal value must be determined on the basis of either a cost construction (subsection 269TAC(2)(c)) or third country sales (subsection 269TAC(2)(d)).

US dumping investigation findings

In relation to the US investigation's findings, it is noted the US anti-dumping system is different to Australia's anti-dumping system and, therefore, the US investigation's findings in relation to Indonesian domestic prices is not directly comparable.

Price data

The information provided by RISI and Hawkins Wright was provided on a commercial in confidence basis and, as a consequence, will not be published by the Commission. Information relating to trends identified and observations made from the analysis of this data is included in Appendix 2.

²⁵ See record 91 on the public record

6.9.2. Substitution of Pulp costs

The Commission's proposed benchmark for pulp costs consists of a quarterly import pulp price into China and Korea based on an average CIF price for bleached eucalyptus kraft wood. The Commission considers that this benchmark will also reflect the regional benchmark prices of pulp used to produce paper in the Asian region and, as such, the substitution of the benchmark costs will accurately reflect, rather than artificially inflate, competitive market raw material costs.

Indah Kiat, Pindo Deli and Tjiwi Kimia

Having established benchmark pulp prices using the above methodology, the Commission substituted the exporter's raw materials costs in the exporter's records with the pulp benchmark, except for 100% recycled paper. The Commission is still considering the effect of the GOI's distortions on the production of recycled paper.

The normal values for each exporter are the sum of:

- the cost to make A4 copy paper based on the benchmark pulp cost (except for non-recycled paper) and other manufacturing costs recorded in the exporter's records;
- domestic selling, general and administrative (SG&A) expenses including adjustments under subsection 289TAC(9) as noted for each exporter below; and
- an amount for profit determined as the actual profit on domestic sales of like goods in the ordinary course of trade.

RAK

The Commission has examined the pulp costs in RAK's cost to make and sell (CTMS) data and notes that RAK has used a transfer price from its related supplier rather than the actual cost of manufacturing the pulp. RAK claimed that this transfer price is based on internationally traded pulp prices. The Commission has analysed these prices and notes that they are consistent with the benchmark prices outlined above. The Commission therefore considers that the cost of pulp recorded in RAK's records does reasonably reflect a competitive market cost and has constructed normal values as the sum of:

- the cost to make A4 copy paper recorded in RAK's records;
- domestic selling, general and administrative (SG&A) expenses including adjustments under subsection 289TAC(9) as noted for RAK below; and
- an amount for profit determined as the actual profit on domestic sales of like goods in the ordinary course of trade.

6.9.3. Verification of information

The Commission conducted visits to Indah Kiat, Pindo Deli, Tjiwi Kimia and RAK.

6.9.4. Indah Kiat

Model Matching

Models for model matching purposes were primarily selected on the basis of product characteristics including gsm, thickness, density, brightness and whiteness.

Export prices

Indah Kiat sold A4 copy paper to Australian customers through a range of trading companies to Paper Force, the importer. The goods were therefore not purchased by the importer from the exporter and for this reason export prices could not be established under subsection 269TAB(1)(a) or 269TAB(1)(b) of the Act. Export prices have been determined in accordance with subsection 269TAB(1)(c) having regard to all the circumstances of the exportation. Export prices are based on the invoiced price from the exporter to the trader less transport and other charges arising after exportation.

Normal Values

The Commission has determined normal values in accordance with subsection 269TAC(2)(c) as outlined above in section 6.9.2.

Adjustments

To ensure the comparability of normal values to export prices, the Commission considered adjustments were required pursuant to subsection 269TAC(9) of the Act as follows:

Adjustment Type	Deduction/addition
Domestic credit	Deduct the cost of domestic credit
Domestic inland transport	Deduct the cost relating to inland transport
Supermarket shelf rental	Deduct the cost of supermarket shelf rental

Table 6: Summary of adjustments

Submissions

A submission was received from Australian Paper in relation to the verification reports for Indah Kiat and the two other associated exporters (Pindo Deli and Pabrik Kertas)²⁶

In relation to Indah Kiat, this submission submitted that the distributor margin adjustment should have not been applied and sought upward adjustment for export inland transport for exports by Indah Kiat and upwards adjustments for export credit terms, containerisation and export packaging for exports by all three associated exporters.

A submission in response was received Sinar Mas Group on 29 August 2016 regarding the distributor margin adjustment.²⁷ Subsequent further submissions were received from Australian Paper²⁸ and the Sinar Mas Group²⁹.

²⁶ See record number 65

²⁷ See record number 69

²⁸ See record number 75

²⁹ See record number 78

Having considered the submissions provided to the Commission, when issuing the PAD, the Commissioner:

- reversed the adjustment applying to the distributor margin made by the verification team and included an adjustment for the supermarket shelf rental expenses incurred by related entity PT Cakrawala Mega Indah (CMI); and
- did not make the requested upward adjustment in relation to export credit terms, containerisation and export packaging for exports, being satisfied that the verified data indicated that these adjustments were not warranted.³⁰

Subsequent to publishing the PAD, a further submission was received from the Sinar Mas Group in relation to the Commission's decision to reverse the distributor margin adjustment.³¹ This submission provided no new information or evidence other than to note that the Japanese anti-dumping administration had made a distributor margin adjustment in an allegedly similar case. Having considered this additional submission, the Commission confirms the finding made in the PAD that only an adjustment for supermarket shelf rental expenses is warranted, as this is the only domestic selling expense for which there is evidence that it would not have been incurred in relation to sales to Australia.

Preliminary Dumping Margin

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

The preliminary dumping margin in respect of A4 copy paper exported to Australia by Indah Kiat for the investigation period is **80.5 per cent**.

6.9.5. Pindo Deli

Model Matching

Models for model matching purposes were primarily selected on the basis of product characteristics including gsm, thickness, density, brightness and whiteness.

Export prices

Pindo Deli sold A4 copy paper to Australian customers through a range of trading companies to Paper Force, the importer. The goods were therefore not purchased by the importer from the exporter and for this reason export prices could not be established under subsection 269TAB(1)(a) or 269TAB(1)(b) of the Act. Export prices have been determined in accordance with subsection 269TAB(1)(c) having regard to all the circumstances of the exportation. Export prices are based on the invoiced price from the exporter to the trader less transport and other charges arising after exportation.

³⁰ The reasons for making and/or not making these amendments are contained in Attachment B to the PAD at record number 84

³¹ See record number 92

Normal Values

The Commission has determined normal values in accordance with subsection 269TAC(2)(c) as outlined above in section 6.9.2.

Adjustments

To ensure the comparability of normal values to export prices, the Commission considered adjustments were required pursuant to subsection 269TAC(9) of the Act as follows:

Adjustment Type	Deduction/addition
Domestic credit	Deduct the cost of domestic credit
Domestic inland transport	Deduct the cost relating to domestic inland transport
Export inland transport	Add the cost relating to export inland transport
Supermarket shelf rental	Deduct the cost of supermarket shelf rental

Table 7: Summary of adjustments

Submissions

Reference is made to section 6.9.4 for the consideration of submissions received relating to the dumping margins calculated for the three exporters in the Sinar Mas Group.

Preliminary Dumping Margin

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

The preliminary dumping margin in respect of A4 copy paper exported to Australia by Pindo Deli for the investigation period is **65.1 per cent**.

6.9.6. Tjiwi KimiaModel Matching

Models for model matching purposes were primarily selected on the basis of gsm levels and whiteness levels. The actual models used for model matching purposes were identical in all aspects.

Export prices

Tjiwi Kimia sold A4 copy paper to Australian customers either through a range of trading companies to Paper Force or direct to Australian customers.

Paper Force

For those sales that were made through a trader to Paper Force, the goods were not purchased by the importer from the exporter. For this reason export prices could not be established under subsection 269TAB(1)(a) or 269TAB(1)(b) of the Act. Export prices have

been determined in accordance with subsection 269TAB(1)(c) having regard to all the circumstances of the exportation. Export prices are based on the invoiced price from the exporter to the trader less transport and other charges arising after exportation.

Direct sales

In respect of export sales direct to Australian customers, the Commission considers the export price be determined under subsection 269TAB(1)(a), being the price paid or payable for the goods by the importer less transport and other charges arising after exportation.

Normal Values

The Commission has determined normal values in accordance with subsection 269TAC(2)(c) as outlined above in section 6.9.2.

Adjustments

To ensure the comparability of normal values to export prices, the Commission considered adjustments were required pursuant to subsection 269TAC(9) of the Act as follows:

Adjustment Type	Deduction/addition
Domestic credit	Deduct the cost of domestic credit
Domestic inland transport	Deduct the cost relating to inland transport
Export inland transport	Add the cost relating to export inland transport
Supermarket shelf rental	Deduct the cost of supermarket shelf rental

Table 8: Summary of adjustments

Submissions

Reference is made to section 6.9.4 for the consideration of submissions received relating to the dumping margins calculated for the three exporters in the Sinar Mas Group.

Preliminary Dumping Margin

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

The preliminary dumping margin in respect of A4 copy paper exported to Australia by Tjiwi Kimia for the investigation period is **4.4 per cent**.

6.9.7. RAK

Model Matching

For the purpose of model matching, the Commission considers that it is appropriate to have regard to product characteristics including gsm, thickness, density, brightness, whiteness and use of April's 'Prodigi' technology.

Export prices

RAK sold A4 copy paper to Australian customers through APRIL, a related trader in Singapore, therefore the goods were not purchased by the importers from the exporter. For this reason export prices could not be established under subsection 269TAB(1)(a) or 269TAB(1)(b) of the Act. Export prices have been determined in accordance with subsection 269TAB(1)(c) having regard to all the circumstances of the exportation.

In respect of export sales to APRIL's customer in Australia, BJ Ball, the Commission considers that the selling prices do not reflect arms length prices because the goods were sold at substantial losses by BJ Ball and those losses are not recoverable within a reasonable period of time. The Commission has therefore determined the export price for these sales using a deductive export price methodology, being the price at which the goods were sold by BJ Ball less the prescribed deductions as set out in subsection 269TAB(2).

Normal Values

The Commission has determined normal values in accordance with subsection 269TAC(2)(c) as outlined above in section 6.9.2.

Adjustments

To ensure the comparability of normal values to export prices, the Commission considered adjustments were required pursuant to subsection 269TAC(9) as follows:

Adjustment Type	Deduction/addition
Domestic transport and handling	Deduct the cost relating to domestic transport and handling
Export inland transport	Add the cost relating to export inland transport and handling
Export credit terms	Add the cost relating to export credit terms
Export credit insurance	Add the cost relating to export credit insurance
Domestic direct advertising	Deduct the cost relating to domestic direct advertising
Export direct marketing	Add the cost relating to export direct marketing
Export bank and document fees	Add the cost relating to export bank and document fees
Physical differences	Deduct/Add the difference (%) in price between the base model and other exported models to account for physical differences

Table 9: Summary of adjustments

Submissions

A submission was received on 31 October 2016 from APRIL.³² The Commission has had insufficient time to consider this submission prior to the publication of this PAD. This submission will be considered for the purposes of the SEF.

³² See record number 114

Preliminary Dumping Margin

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

The preliminary dumping margin in respect of A4 copy paper exported to Australia by RAK for the investigation period is **9.3 per cent**.

6.10 Dumping assessment – Thailand**6.10.1. Verification of information**

The Commission conducted a verification visit to two Thai exporters and verified information relating to costs, domestic sales and exports to Australia during the investigation period. The exporters visited were:

- Double A (1991) Public Company Limited
- Phoenix Pulp & Paper Public Co., Ltd

6.10.2. Double A (1991) Public Company LimitedModel Matching

Model matching was completed on the same model where possible, matching the brand and gsm weighting.

Where export models of Double A paper were identified without sufficient domestic sales of that model information in the material grouping information provided by Double A was used to identify a model with the same gsm for model matching purposes.

Export prices

In relation to the exporter's sales to Australia, the Commission considers the export price be determined under subsection 269TAB(1)(a), being the price paid or payable for the goods by the importer less transport and other charges arising after exportation.

Normal Values

Normal values for exported models were determined under subsection 269TAC(1) based on domestic sales of the comparable models in the ordinary course of trade

Adjustments

To ensure the comparability of normal values to export prices, the Commission considered adjustments were required pursuant to subsection 269TAC(8) as follows:

Adjustment Type	Application
Transport - inland	Deduct the value of domestic inland transport
Commission - domestic	Deduct the value of domestic commissions

Adjustment Type	Application
Marketing - domestic	Deduct the value of domestic marketing programs
Finance - Domestic	Deduct the value of domestic finance
Domestic Credit Terms	Deduct the value of domestic credit terms
Inland transport export	Add the cost of export inland transport to port
Export Handling	Add the cost of export handling fees
Finance - export	Add the value of export finance
Export credit	Add the value of export credit terms
Marketing - domestic	Add the value of export marketing programs

Table 10: Summary of adjustments

Submissions

A number of submissions were received from Double A in relation to the investigation and the dumping margin calculated by the verification team.³³ The issues canvassed in its submissions included:

- Double A submitted that the products sold under its Double A brand should be differentiated from other products on the market in Australia. Double A stated that its Double A branded products were sold at a significant consumer price premium, were of superior quality and carried significant advertising/marketing costs when compared to the lower priced private and commodity labelled products.

For the purposes of model matching used in relation to Double A's dumping margin calculation, the Commission model matched on the same model where possible, matching the brand and gsm weighting.

- Double A submitted that the date of order placement should be considered the date of sale as this was when the material terms of the sale were established.

In establishing the date of sale, the Commission will normally use the date of invoice as it best reflects the material terms of sale. For the goods exported, the date of invoice also usually approximates the shipment date. The Commission has analysed the claims of Double A regarding the date of sale, and recognised that while a purchase order is issued by the customers, the gap between the purchase order time and the invoice time allows for changes in order size, type, and timing.

- Double A submitted that there is a difference between domestic and export inventory holding periods and as such, an adjustment should be made to reflect the finance cost relating to holding different levels of stock.

Data provided has not been linked to reconciled statements or other information which was verified. There is no way for the Commission to test the validity or accuracy of the information, or how it was drawn from the system. Consequently, the adjustment has not been accepted.

³³ See public record number 12 and 103

- Double A has provided an additional submission regarding the most appropriate exchange rate to utilise.

Double A receive export orders from Australia based in Australian dollars. Double A is mainly an export focused firm and yet did not provide any evidence to demonstrate any attempts to hedge or mitigate unfavourable (or favourable) exchange rate movements, while offering extended credit terms to most Australian customers.

Double A accepted these orders, and noted that during the period there were changes to the exchange rate. Double A is effectively requesting an adjustment based on the delay between a purchase order being lodged, and the invoice being issued by Double A during which time the Thai Baht has appreciated against the Australian dollar.

Double A's calculation of the foreign exchange movements compares an invoice price in January with the exchange rates between July and September from the previous year based on the average days between an order being received and an invoice being issued. The basis for the sustained exchange rate movement adjustment, as relied upon by the Commission, allows for the previous eight weeks comparison to test for any fluctuation. Comparing an eight week period from a period long before the invoice date does not reflect an appropriate method for comparison of exchange rate fluctuations when a business has not attempted to mitigate the any foreign exchange risks faced.

Double A then submitted that during the first half of 2015 it attempted to adjust prices, however this evidence is inconsistent with invoices from a similar time, whereby some invoice prices are adjusted and others aren't from the same date.

- Double A sought an adjustment to the Commission's cost calculations for related party manufacture. Additional evidence was provided to support this adjustment to the Commission's calculations.

The Commission prior to the issuing of the SEF will be seeking further clarification to support this adjustment to the calculated costs.

Two further submission were received from Double A on 31 October 2016 and 3 November 2016³⁴. The Commission has not had time to consider these submissions prior to revising the level of securities applicable to Double A.

A submission was received from Australian Paper in relation to the verification report for Double A.³⁵ Having considered the matters raised by Australian Paper, the Commission has now included an upwards adjustment for the value of export marketing programs.

Preliminary Dumping Margin

The verification team has calculated the dumping margin in accordance with subsection 269TACB(2)(a) of the Act, by comparing the weighted average of export prices over the

³⁴ See record number 115 and 116

³⁵ See record number 98

whole of the investigation period with the weighted average of corresponding normal values over the whole of that period.

The dumping margin for Double A has been calculated as **13.4 per cent**.

6.10.3. Phoenix Pulp & Paper Public Co., Ltd;

Model Matching

For the purpose of model matching, the visit team had regard to gsm levels; whiteness levels; brightness levels and roughness levels.

Export prices

Export prices for sales of A4 copy paper to Australia by PPPC were established under paragraph 269TAB(1)(a) using the invoiced price from the exporter to the importer less transport and other charges arising after exportation.

Normal Values

Normal values were determined under subsection 269TAC(1) based on domestic sales made in the ordinary course of trade.

Adjustments

To ensure the comparability of normal values to export prices, the Commission considered adjustments were required pursuant to subsection 269TAC(8) as follows:

Adjustment Type	Deduction/addition
Domestic inland transport to distribution centre	Less an amount for domestic inland transport to distribution centre
Domestic inland transport and salesman expense	Less an amount for domestic inland transport and salesman expense
Domestic distribution centre expenses (warehousing)	Less an amount for domestic distribution centre expenses
Domestic credit	Less an amount for domestic credit
Domestic trade insurance	Less an amount for domestic trade insurance
Export inland transport and port charges	Add an amount for export inland transport and port charges
Export handling and other	Add an amount for export handling and other
Export credit	Add an amount for export credit
Tax and duty compensation	Less an amount for payment received under government tax and duty compensation scheme for exported goods
Specification adjustment	Adjustment to the normal value of a similar model due to insufficient sales of that domestic model

Table 11: Summary of adjustments

The normal values calculated by the verification team also included a downwards adjustment for domestic stock carrying, however following further consideration of the facts and evidence the Commission has not allowed this adjustment and removed it from the normal value calculations. The Commission considers that while the cost of carrying stock for domestic and export sales may be different, there would at least be some cost associated with holding stock produced for export until the goods are transported to the port for export. PPC has not provided any evidence of this cost, therefore an adjustment for the cost difference in carrying stock for domestic and export sales cannot be made.

Submissions

A submission was received from PPC in relation to the methodology used for calculating the dumping margin.³⁶ PPC claimed a level of trade adjustment was warranted due to the difference in selling prices to 'dealers' (a comparable level to the export sales to Australia) and selling prices to end users. The Commission conducted further analysis of PPC's domestic selling prices and found that for the two models that account for the majority of domestic sales in Thailand, the difference in selling prices to dealers and end users is not significant and for one of those models the selling price to dealers is consistently higher than to end users. For this reason the Commission has not allowed this adjustment.

PPC also disagreed with the methodology used by the verification team to make the specification adjustment for the model that did not have sufficient domestic sales in the ordinary course of trade. The Commission used the difference in selling prices between that model and the next closest model for which there was sufficient domestic sales in the ordinary course of trade.

The Dumping and Subsidy Manual states, in relation to specification adjustments, that:

Evidence may be provided of different selling prices for products with different physical characteristics or quality. In such cases, the size of the price difference may be used as the basis for any adjustment.

The Commission considers that the domestic sales provided by PPC are suitable for determining the difference in selling prices of the two models in question. However, the Commission has amended the methodology to use the weighted average difference over the whole investigation period to make the adjustment, rather than on a quarterly basis, which resulted in an upwards adjustment in three quarters and a downwards adjustment in the other quarter.

Preliminary Dumping Margin

The dumping margin has been assessed by comparing weighted average Australian export prices to the corresponding quarterly weighted average normal values for the investigation period.

The dumping margin for PPC has been calculated as **18.1 per cent**.

³⁶ See record number 80

6.10.4. Uncooperative and all other dumping margins

Subsection 269TACAB(1) sets out the provisions for calculating export prices and normal values for uncooperative exporters. The Act specifies that for uncooperative exporters, export prices are to be calculated under subsection 269TAB(3) and normal values are to be calculated under subsection 269TAC(6), having regard to all relevant information.

Export prices

Having regard to all relevant information, the export prices for uncooperative exporters from Brazil, China, Indonesia and Thailand were established separately for each country in accordance with subsection 269TAB(3), using the lowest quarterly weighted average export price from the cooperative exporter with the greatest dumping margin.

Normal Values

Having regard to all relevant information, the normal values for uncooperative exporters from Brazil, China, Indonesia and Thailand were established separately for each country in accordance with subsection 269TAC(6), using the highest quarterly weighted average normal value from cooperative exporter with the greatest dumping margin.

Preliminary Dumping Margin

The dumping margins for uncooperative exporters from Brazil, China, Indonesia and Thailand were established in accordance with paragraph 269TACB(2)(a), by comparing the weighted average export price established under subsection 269TAB(3) with the weighted average normal value established under subsection 269TAC(6).

The dumping margins for uncooperative exporters and all other exporters are:

Country	Dumping Margin
Brazil	31.9%
China	40.0%
Indonesia	86.6%
Thailand	23.7%

Table 12 – Uncooperative and All Other Dumping Margins

6.10.5. Volume of dumped imports

Pursuant to subsection 269TDA(3), the Commissioner must terminate the investigation, in so far as it relates to a country, if satisfied that the total volume of goods that are dumped is a negligible volume. Subsection 269TDA(4) defines a negligible volume as less than three per cent of the total volume of goods imported into Australia over the investigation period if subsection 269TDA(5) does not apply.

As outlined in chapter 5 of this report, the Commission has determined the imported volume of goods in the Australian market. Based on this information, the Commission is satisfied that, when expressed as a percentage of the total imported volume of the goods, the

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volume of allegedly dumped goods from each of Brazil, China, Indonesia and Thailand was greater than three per cent of the total import volume and is therefore not negligible.

7. Economic Condition of the Australian industry

7.1 Preliminary Finding

Based on an analysis of the information contained in the application and information obtained and verified during this investigation, the Commissioner considers that Australian Paper has experienced:

- loss of sales volume;
- price suppression;
- price depression;
- reduced profits and profitability;
- reduced revenue from A4 copy paper; and
- reduced employment related to the production of A4 copy paper.

7.2 Introduction and legislative framework

Under section 269TG, one of the matters the Parliamentary Secretary must be satisfied of in order to publish a dumping duty notice is that, because of the dumping, material injury has been, or is being caused, or has been threatened to the Australian industry producing like goods.

This section outlines the Commission's analysis of the economic condition of the Australian industry and includes an assessment as to whether the industry has suffered injury.

7.3 Injury claims made by Australian Industry

Australian Paper 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.

7.4 Approach to injury analysis

The Commission relied on Australian Paper's verified data in performing its analysis regarding the economic conditions within the Australian industry for the period 1 January 2012 to 31 December 2015 (referred to in this section as the injury analysis period). The verified data includes production, cost and sales data for A4 copy paper on a quarterly and annual basis for the injury analysis period.

The Commission has also included data from the ABF import database in its analysis where necessary. Some aspects of the ABF import data were verified through visits to exporters and importers.

The Commission's analysis of Australian Paper's data relates only to domestic sales of A4 copy paper, unless noted otherwise. Australian Paper's sales of exported A4 copy paper have been excluded from the injury analysis, except where analysis was completed in relation to the impact of the US Anti dumping investigation to which Australian Paper was a party to.

Various submissions have been received in relation to Australian Paper's claims of injury. Consideration of these submissions is discussed throughout this chapter and in chapter 8.

7.5 Commencement of Injury

In its application, Australian Paper claimed that it had observed a sharp increase in import volumes of A4 copy paper at dumped prices in 2013. Australian Paper 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, Australian Paper claims that in 2015 it was not able to continue reducing costs to match the continued decline in selling prices.

In Australian Paper'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 as this is consistent with the Commission's convention of including the preceding three years to the investigation period, together with the investigation period, as the injury analysis period.

The Commission has only considered evidence presented for the period after 1 January 2012 in assessing the overall economic condition of the Australian industry. The Commission is unable to draw any conclusions on allegations of dumping prior to the investigation period (1 January 2015 to 31 December 2015).

7.6 Volume effects

In its application Australian Paper submitted that it has suffered material injury in relation to lost sales volumes and reduced market share.

7.6.1. Sales volumes and market share

Figure 2, below, illustrates Australian Paper's sales volume of copy paper in the domestic market over the injury analysis period.

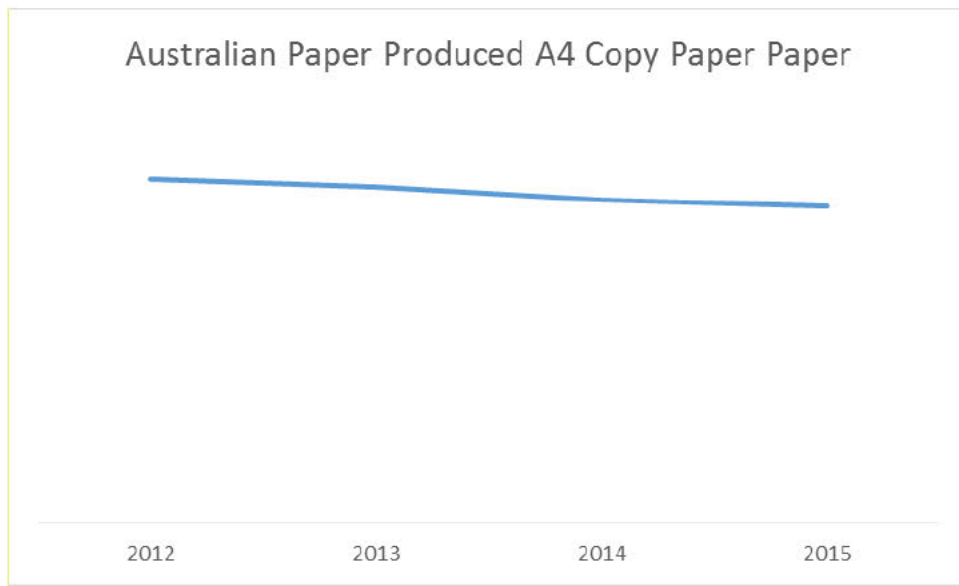


Figure 2: Australian Paper's sales volume of the goods 2012-2015

As observed by figure 2 above, there has been a continual decline in Australian Paper's sales volumes during the whole injury analysis period, including the investigation period (2015).

Figure 3 below illustrates the size of the Australian A4 copy paper market in terms of both Australian Paper's sales and imports. The Australian A4 copy paper market experienced increases in the 2013 and 2014 years. However, the market dropped in size during 2015. Despite the fall in the market, the 2015 market is still larger than the market in 2012.



Figure 3: Total Australian A4 copy paper market including imported goods and goods manufactured in Australia

Figure 4, below, shows that Australian Paper has lost market share during the injury analysis period. However, during the investigation period, Australian Paper had a gain of market share of approximately two per cent and imports from countries under this investigation had a marginal fall in market share of approximately 1.5 per cent.

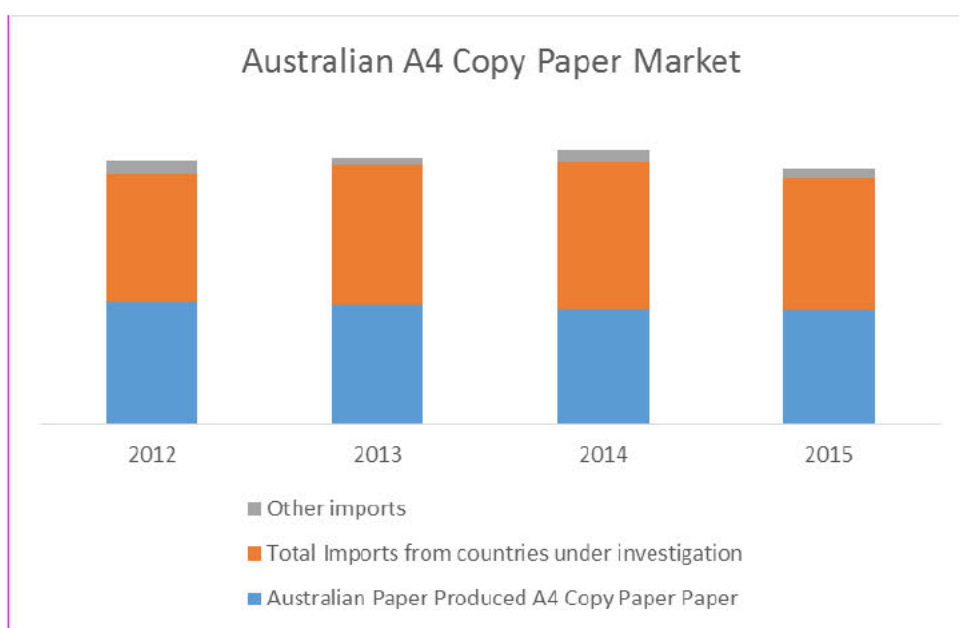


Figure 4: Market share -- imported goods and goods manufactured in Australia

The Commission's preliminary assessment is that:

- whilst Australian Paper has lost market share over the injury analysis period, during the investigation period (2015 calendar year) Australian Paper did not suffer injury from lost market share; and
- During the investigation period (2015) Australian Paper suffered injury in the form of lost sales volumes.

7.7 Price effects

In its application Australian Paper submitted that it had suffered price depression. For the purposes of analysing price effects, the Commission considers both price depression and price suppression.

7.7.1. 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 5, below, illustrates movements in Australian Paper's domestic weighted average unit costs and prices for A4 copy paper over the injury analysis period³⁷.

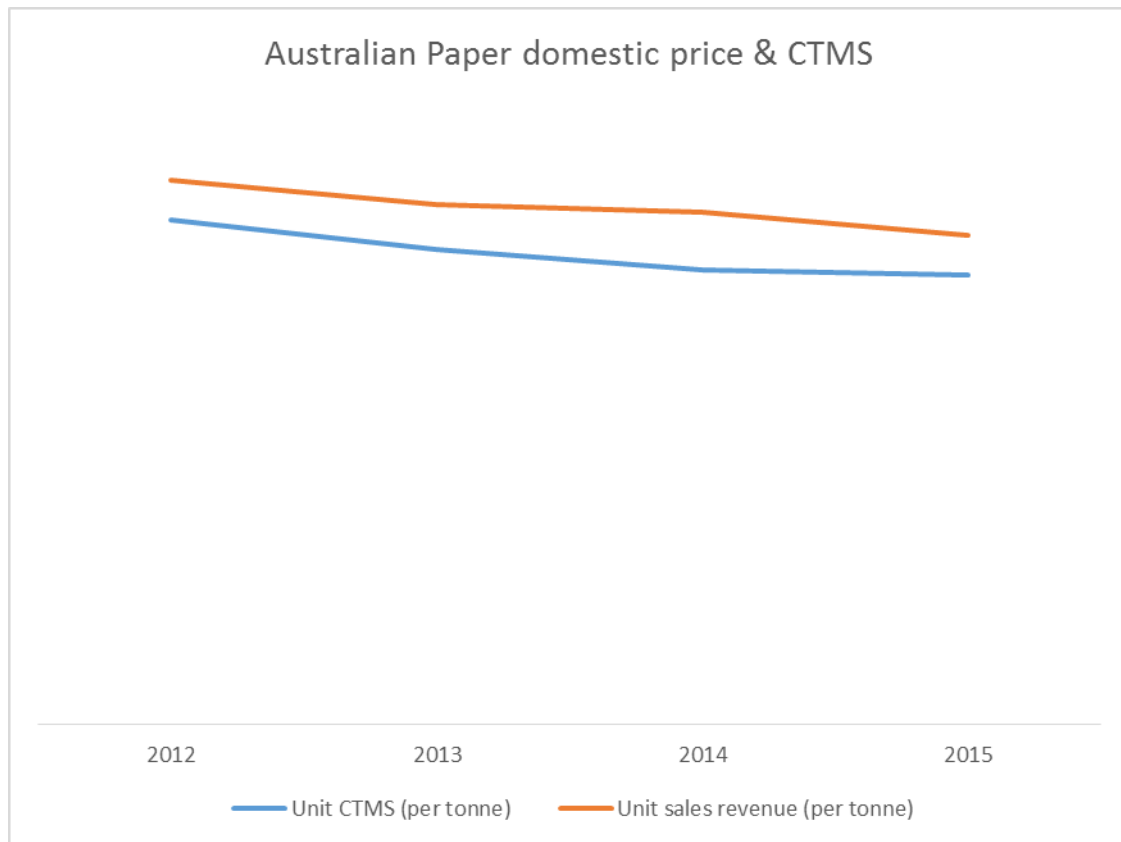


Figure 5 – Australian Paper's unit CTMS & unit domestic sale prices

Australian Paper 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 5, unit CTMS decreased in 2013 and 2014, while a less substantial decrease was recorded in 2015. During this period, the unit price also decreased. From 2012 to 2014, the differential between CTMS and unit price increased. However, in 2015 this differential decreased due to a more substantial decline in unit price relative to unit CTMS. In its application Australian Paper stated that 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 Australian Paper's prices was not matched by a decrease in CTMS.

The Commission's preliminary assessment is that during the investigation period (2015) Australian Paper suffered injury in the form of price suppression.

³⁷ Australian Paper's verified sales data used for this analysis excluded export sales and sales of copy paper imported by Australian Paper.

7.7.2. Price Depression

As indicated in Figure 5, Australian Paper's unit pricing has declined consistently across the injury analysis period and, specifically, in the investigation period (2015), which is indicative of price depression.

7.8 Reduced Profit and profitability

In its application Australian Paper claimed that it was suffering injury in the form of reduced profit and profitability. Figure 6 below shows Australian Paper's profit and profitability for A4 copy paper over the injury analysis period.

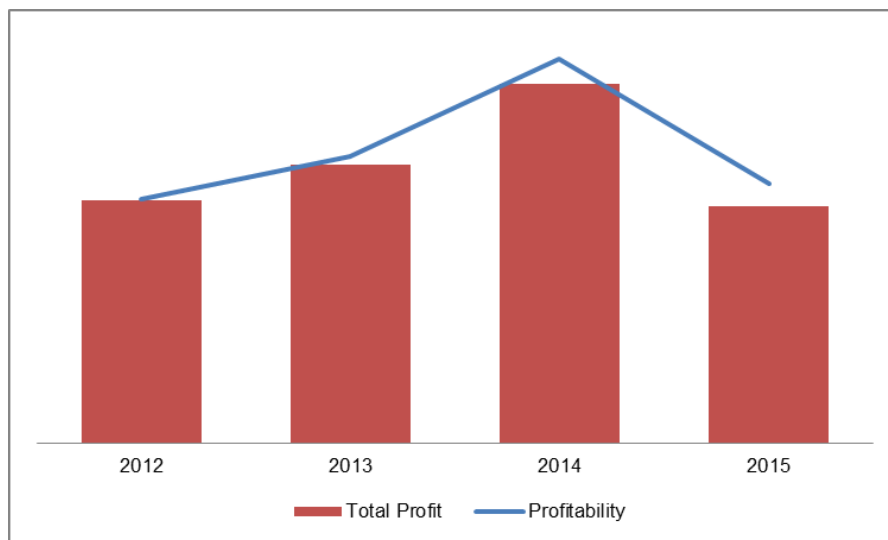


Figure 6 – Australian Paper unit profit & profitability 2012 to 2015

As illustrated in Figure 6, Australian Paper's profit and profitability was increasing from 2012 to 2014. In 2015, however, Australian Paper's profit and profitability decreased relative to 2014 and 2013.

The Commission's preliminary assessment is that during the investigation period (2015) Australian Paper suffered injury in the form of reduced profit and profitability.

7.9 Other Injury Factors

7.9.1. Reduced Revenue

While revenue from sales of like goods remained relatively unchanged between 2012 and 2013, as shown below in Figure 7, it declined year on year between 2013 and 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.

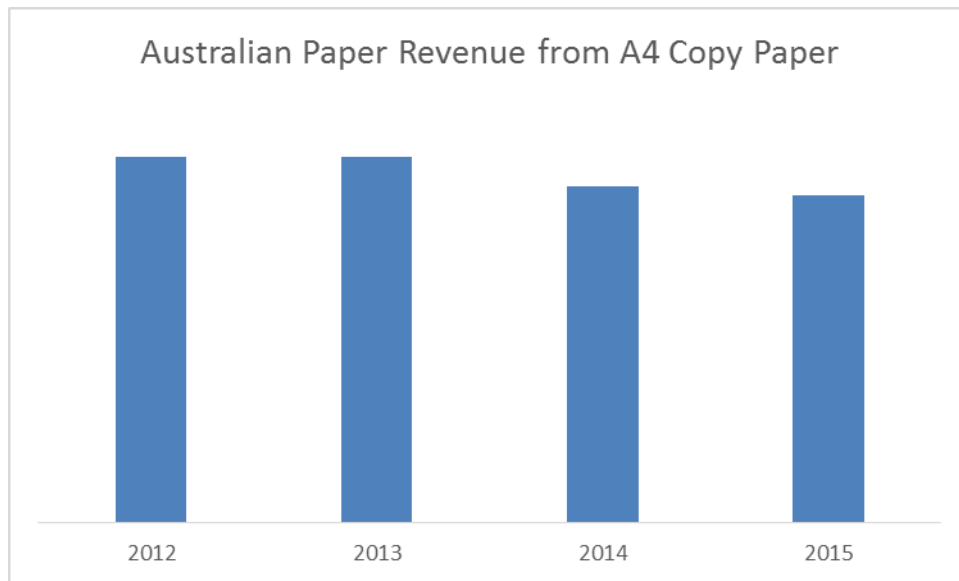


Figure 7 – Australian Paper’s revenue from copy paper sales

The Commission’s preliminary assessment is that during the investigation period (2015) Australian Paper suffered injury in the form of reduced revenue.

7.9.2. Reduced Employment

Australian Paper’s employment numbers dedicated to A4 copy paper production continually decreased over the injury analysis period.

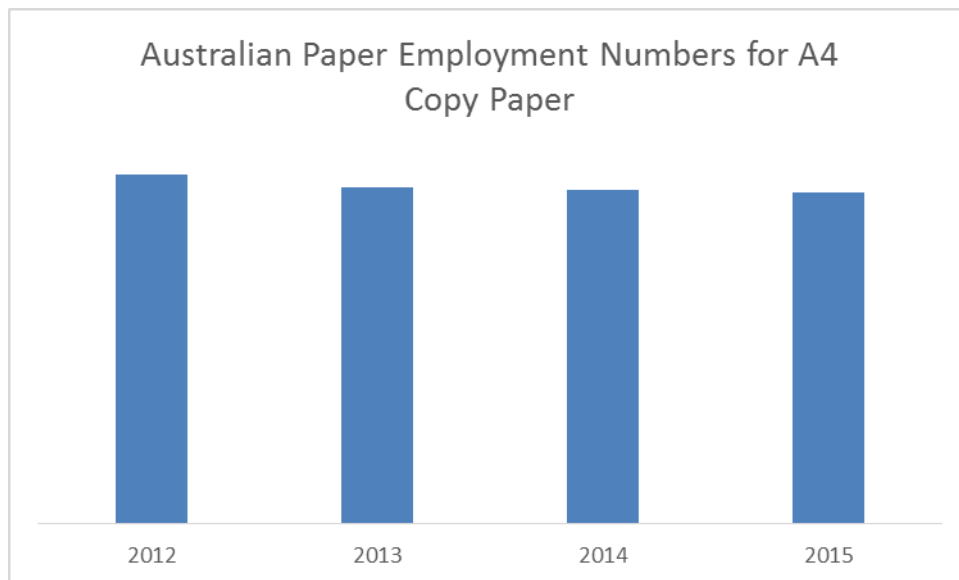


Figure 8 – Australian Paper’s total employment in A4 copy paper production

The Commission’s preliminary assessment is that during the investigation period (2015) Australian Paper suffered injury in the form of reduced employment.

7.9.3. Australian Paper's injury claims - Capacity Utilisation

Australian Paper 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 lower margins 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 sold into other markets. Therefore, the Commission was not able to satisfactorily verify that the injury relating to capacity or capacity utilisation had occurred.

Consequently, the Commission is not satisfied, based on evidence presented to date, that Australian Paper has suffered injury in the form of reduced capacity utilisation.

7.9.4. Australian Paper's injury claims - Return on Investment

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

To support this, Australian Paper 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 Commission was not satisfied that the methodology applied by Australian Paper sufficiently isolates the effective EBIT attributable to A4 copy paper.

The Commission was not able to satisfactorily verify that the injury relating to return on investment had occurred. Consequently, the Commission is not satisfied, based on evidence presented to date, that Australian Paper has suffered injury in the form of reduced return on investment.

7.10 Other economic factors

The below conclusions, as they relate to the other economic factors provided by Australian Paper in its A7 Appendix and 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;
- 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.

7.11 Injury to the Australian industry – preliminary assessment

The Commission considers that there appears to be sufficient grounds to support Australian Paper's claims that injury has been experienced in the forms listed above at Section 7.1.

8. Has Dumping Caused Material Injury?

8.1 Preliminary Finding

The Commission's findings are that the dumped exports from Brazil, China, Indonesia and Thailand have caused material injury to the Australian industry.

8.2 Legislative framework

Under subsections 269TG(1) and (2), one of the matters the Parliamentary Secretary must be satisfied of in order to publish a dumping duty notice is that, because of the dumping, material injury has been, or is being caused, or is threatened to the Australian industry producing like goods.

Subsection 269TAE(1) outlines the factors, to which the Commission has had regard, that may be taken into account in determining whether material injury to an Australian industry has been, or is being, caused or threatened.

The Commission has also had regard to the *Ministerial Direction on Material Injury 2012* as outlined further in section 9.10.³⁸

8.3 Size of the dumping margins

Subsection 269TAE(1)(aa) provides that regard may be had to the size of each of the dumping margins.

The positive and non-de minis dumping margins outlined in Chapter 6 for the cooperative exporters, which represented around 68 per cent of the export volume from the nominated countries during the investigation period, ranged between 2.91 per cent and 80.46 per cent per cent. The dumping margin for uncooperative and all other exporters arranged between 23.73 and 86.62 per cent.

The Commissioner is satisfied that this dumping enabled importers of A4 copy paper to have a competitive advantage on price compared to the Australian industry.

8.4 Cumulative effects of exportations

Subsection 269TAE(2C) sets out the requirements for assessing the cumulative effects of goods exported to Australia from different countries. In relation to a dumping investigation, where exports from more than one country are the subject of investigations resulting from applications under section 269TB that were lodged on the same day (as is the case in this investigation), the cumulative effects of such imports may be assessed if:

- the margin of dumping established for exporters in each country is not negligible; and
- the volume of imports from each country is not negligible; and

³⁸ *Ministerial Direction on Material Injury 2012*, 27 April 2012, available on the Commission's website

- cumulative assessment is appropriate having regard to the conditions of competition between the imported goods and the imported goods and like goods that are domestically produced.

Non-Negligible Import Volumes and Dumping Margins

As outlined in chapter 6, the Commission has established that the margin of dumping for exporters from Brazil, China (except for Asia Symbol), Indonesia and Thailand were not negligible and that the volume of imports was not negligible.

Conditions of Completion – China, Indonesia & Thailand

Overall, the conditions of competition between imported A4 copy paper and between imported and domestically produced A4 Copy Paper are similar in relation to Chinese, Indonesian and Thai imports.

A submission³⁹ from Central National Australia suggested that imports from Thailand should be de-cumulated from imports from the other nominated countries. The reasons specified for doing this included differences between grades and brands of A4 copy paper, not all importers seeking the same distribution options as Australian Paper and the nature of the threat from Thai imports, as a result of the US investigation, were different.

The Commission has established that imports sourced from exporters in China, Indonesia, Thailand and Australian Paper were predominantly selling A4 copy paper into similar market segments during the investigation period. As previously noted in Section 3.3, information received by the Commission indicates that there is 'leakage' of sales between each of the market segments as sellers seek market share in other segments and end users seek supply from alternative sources. The Commission also identified that importers were collectively selling A4 copy paper in similar product categories that Australian Paper was selling A4 copy paper. This was verified during importer and Australian industry visits.

Evidence indicates that the imported goods and domestically produced goods are used by the same or similar customers. Furthermore, domestically produced and imported A4 copy paper are easily substitutable. The goods produced by all exporters and the Australian industry are alike, have similar specifications and common end-uses.

The Commission considers that, due to the degree of price sensitivity in the market, price competition is a major condition of competition between the imported goods and between the imported goods and the domestically produced goods.

A detailed analysis was completed on the retail and reseller market segments, which accounts for a significant portion of sales in the Australian market. The Commission analysed the verified weighted average selling price of A4 Copy Paper sold by Australian Paper and verified importer data for the investigation period. Based on verified data, the Commission found that there was significant price competition between the imported goods and also between the imported goods and the like domestic goods. The Commission also observed that retail sales data provided clearly indicates that there was evidence of direct

³⁹ See record number 10

competition. The nature of this competition was also confirmed through discussions with a major retailer.

Further evidence indicates that importers, their customers and also exporters themselves are directly competing with Australian Paper's distribution network in the reseller market segment. Australian Paper is closely aligned with Staples in the Australian market. Staples have advised the Commission of circumstances where it has lost sales to imported copy paper.

Market volume analysis indicates the volumes of domestically produced and imported A4 copy paper from each of the nominated countries are materially large enough to have impact on competition in the market place.

The Commission considers the conditions of competition are such that it is appropriate to consider the cumulative effect of the dumped imports from China, Indonesia and Thailand.

Conditions of Completion – Brazil

A submission was received from Jackaroo Paper Pty Ltd⁴⁰ (Jackaroo) in relation to whether the imports from Brazil were contributing to the material injury claims made by Australian Paper. In the submission it was argued that it was not appropriate to consolidate the effects without considering whether the grounds existed for cumulation. Jackaroo provided information on the nature of supply to its primary Australian customer, Complete Office Supplies (COS). COS is a reseller (alternatively phrased as a Business to Business supplier). Jackaroo supplies A4 copy paper to COS after winning a tender during 2014. Jackaroo argued that the Commission should not accumulate for the following reasons:

- Australian Paper has never competed or sought to supply to this reseller and the supply was previously from another importer;
- That its product in the Australian market can be differentiated from products supplied by Australian Paper; and
- That the contract was awarded in 2014 and not during the investigation period.

In response, Australian Paper made a submission⁴¹ on 23 September 2016⁴² disputing Jackaroos submission. In its submission Australian Paper stated that:

- It was familiar with the contract won by Jackaroo in 2014 and it was incorrect to say that Australian Paper was not injured by the outcome of that tender. Australian Paper argued that the reseller it sells to, Staples Pty Ltd (Staples), directly competes with COS. For this reason, Australian Paper argue that they were unable to compete for the tender. Australian Paper also argue that their reduction in selling prices to Staples were in direct response to advice that it was competing with dumped exports from the nominated countries, including Brazil.

⁴⁰ See record number 23 on the public record

⁴¹ See record number 85 on the public record

⁴² Given the closeness of the receipt of this submission to the issuing of the PAD on 29 September 2016, this submission was not considered for the purposes of the PAD.

- That Jackaroo's assertion that, given that the contract was awarded in 2014, any injury falls outside the investigation period is incorrect. Australian Paper stated that the relevant supply under the tender was made during the investigation period.
- In relation to Jackaroo's assertions surrounding the differentiation between the products they supply and Australian Paper products, Australian Paper stated that the copy paper market is highly price sensitive and all copy paper is the same. Australian Paper also contend that export sales by IP Basil during 2015 contribute to a broader pervasive effect of dumped prices on the entire Australian copy paper market.

A further submission⁴³ was provided by Australian Paper providing direct evidence of a tender lost by Staples in 2015 to COS and the pricing impact this tender had.

In order to further consider the submissions made by Jackaroo and Australian Paper, the Commission held meetings with both Staples and COS to gain a better understanding of the circumstances surrounding the awarding of the 2014 tender and the nature of competition between the two companies in the business-to-business (B2B) market.

As a result of these discussions, the Commission has confirmed that both COS and Staples are competing in the B2B market. Further, advice from Staples indicates that they have lost sales to COS. These lost sales are likely to have resulted on further pricing pressure on Staples and consequently Australian Paper. Through discussions with COS it was identified that COS offered the A4 copy paper imported from Brazil branded as COS Premium. COS offers a range of A4 copy paper products which includes COS Premium labelled copy paper. COS advised that COS Premium may not be the product primarily used to compete or win tenders in the B2B market by COS.

The Commission has, to date, not sought or obtained any evidence to support COS's advice that Brazilian pricing was not offered in tender applications it was competing with Staples. However, the Commission undertook further analysis of the volume of imports from the alternative pricing source for the B2B tenders. This analysis indicates that this pricing source accounts for approximately half the volume of Brazilian imports.

Having assessed the submissions received from IP Brazil and Australian Paper in relation to the nature of competition of imports from Brazil and having conducted its own enquiries with relevant customers, the Commission is of the view that Australian Paper is indirectly facing downstream competition in B2B market through its aligned customer in this segment. However, the Commission notes that based on information supplied by COS, pricing used to compete for B2B contracts during the investigation is not necessarily based on pricing related to imports from Brazil. However, the Commission notes given the smaller volume of the imports from the alternative pricing source, the Commission considers that Brazilian imports are still significant and, given the price sensitive nature of the market, Brazilian imports are competing with other imports and Australian Paper for sales.

The Commission, considers that conditions of competition between the imported Brazilian goods, other imports and Australian Paper sales are such that cumulating Brazilian imports with the imports from China, Indonesia and Thailand in the injury analysis is appropriate.

⁴³ Se record number 107

8.5 Volume effects

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

In its application Australian Paper advised that the overall market for A4 copy paper had declined during 2015. For the purposes of its causation analysis, the Commission sought to determine whether the loss of sales volume was attributable to dumped imports.

In relation to sales volumes, this analysis identified during the investigation period that;

- the Australian A4 copy paper market declined by approximately 7 per cent;
- import volumes from Brazil, China, Indonesia and Thailand declined by approximately 10 per cent;
- import volumes from countries not subject to the investigation declined by approximately 17 per cent; and
- the Australian industry sales volumes declined by approximately 2 per cent.

In relation to market share, the analysis identified during the investigation period that:

- Australian industry had an increase of 2 percentage points of market share;
- the market share for imports from Brazil, China, Indonesia and Thailand declined by approximately 1.7 percentage points; and
- the market share for imports from countries not subject to the investigation decreased by approximately 0.5 percentage points.

8.5.1. The Commissioner's assessment – volume effects

The cause of sales volume decreases and market share increases experienced by Australian Paper are unclear and, therefore, the Commissioner is not satisfied that Australian Paper has suffered volume injury resulting from dumped imports from Brazil, China, Indonesia and Thailand.

The Commission's volume analysis is at **Confidential Attachment 4**.

8.6 Undercutting

Price undercutting occurs when imported goods are sold at a price below that of the domestically produced goods.

A comprehensive undercutting analysis was undertaken in order to determine whether Australian Paper's prices had been undercut by A4 copy paper exported from Brazil, China, Indonesia and Thailand. The methodology used by the Commission involved the following steps:

- compared weighted average prices, net of rebates and discounts, for the imported goods sold by importers to Australian Paper's weighted average prices, net of rebates and discounts;
- compared prices at a comparable level of trade which varied specifically taking into account the customers of importers and their level of trade as classified by the importer and Australian Paper's classification of the same customers;

- compared the products sold by the importer with the most relevant products sold by Australian Paper taking into consideration recycled content and the product categories specified in section 5.3; and
- was conducted on the basis of the pricing of 80 gsm⁴⁴ paper, as this is the most common product sold in Australia.

8.6.1. Price undercutting by country of export

Below is a table summarising the findings of the undercutting analysis:

Country	Exporter	Importer	Months found to be undercutting Australian Paper	Undercutting percentage margin
Brazil	Exporter	Importer	1 of 12	3.78%
China	Exporter	importer	2 of 9	0.21% - 0.23%
	Exporter	Importer	12 of 12	0.20% - 18.98%
	Exporter	Importer	12 of 12	1.79% - 11.44%
	Exporter	Importer	12 of 12	19.61% - 28.67%
Indonesia	Exporter	BJ Ball	11 of 12	1.52% - 13.00%
	Exporter	Importer	12 of 12	16.13% - 26.60%
	Exporter	Importer	8 of 12	0.37% - 24.63%
	Exporter	Importer	5 of 5	18.16% - 23.26%
Thailand	Exporter	Importer	9 of 12	1.14% - 21.99%
	Exporter	Importer	12 of 12	11.86% - 28.06%

Table 13: Summary of Undercutting

8.6.2. The Commissioner's assessment – price undercutting

The Commissioner is satisfied that there is positive evidence of price undercutting of Australian Paper's prices by exports from Brazil, China, Indonesia and Thailand.

Whilst it is noted that imports from Brazil are only undercutting in one period, an analysis of the trend in relation to A4 copy paper exported from Brazil indicates Australian Paper lowered its pricing, subsequent to being undercut by Brazilian imports.

The Commission has no direct evidence to indicate that the Staples branded paper price reduction was in direct response to the Brazilian import pricing for A4 copy paper sourced by COS. However, the Commission believes that it is reflective of Australian Paper, in general, reacting to pricing in the reseller market segment. Further, despite the fact that the contract under which most of the Brazilian A4 copy paper was imported was determined in 2014, the actual supply under the contract occurred during the investigation period and,

⁴⁴ Grams per square metre.

therefore, the Commission considers that the injury is attributable to the investigation period.

The Commissioner considers that there is sufficient evidence from the price undercutting analysis to conclude that the dumping at the levels outlined in Chapter 6 created a competitive benefit to importers for exports from Brazil, China, Indonesia and Thailand and demonstrates that the applicant faced price pressure from imported goods.

The Commission's price undercutting analysis is at **Confidential Attachment 4**.

8.7 Price effects

8.7.1. Pricing in the Australian A4 Copy Paper market

Australian Paper sets prices relative to imports, and this was verified at the Australian industry visit by evidence of pricing negotiations and by a comparison of prices. In particular, Australian Paper's prices and the prices of the imported goods show a degree of correlation that indicates strong market competition in a market that is price sensitive.

Evidence has been provided by Australian Paper of causes of pricing injury suffered by Australian Paper. This evidence is outlined below:

- negotiation trails with customers for future supply which outlines the importance of the price of A4 copy paper. In some cases, Australian Paper have been required to offer incentives such as partial reimbursement of promotional pricing in order to compete with the pricing of imported A4 copy paper;
- scan data of weekly product pricing at Woolworths indicating that A4 copy paper is price sensitive. During weeks where A4 copy paper is sold on promotion, sales quantities are considerably higher than paper selling at the recommended retail price. Imported A4 copy paper was sold on promotion for a larger portion of the investigation period than locally produced A4 copy paper; and
- requirement to drop pricing of A4 copy paper in order to be more competitive than an importer to be successful for a tender contract.

The Commission conducted further enquiries with one major retailer and a major reseller client of Australian Paper. Evidence from the major retailer indicated that, as long as a potential supplier could meet the requirements of a contract, price was the key determinate in the awarding of contracts. Enquiries with the reseller indicated that they had lost supply contracts to other resellers in the market place who were sourcing A4 copy paper from the nominated countries. In relation to these contracts the price of copy paper was an important factor, however, the reseller considers that other factors were also important in relation awarding of the tenders. Further evidence was provided by Australian Paper by way of a submission⁴⁵ of the impact of evidence of tendering in the reseller market and the pricing impact this tendering had on its pricing to the reseller.

⁴⁵ See record number 107

8.7.2. Price depression and suppression

Data provided by Australian Paper 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 Australian Paper.

The Commission has found that a large part of A4 copy paper supply contracts are awarded on a tender basis. The Commission obtained evidence from Australian Paper of feedback from one unsuccessful tender and the negotiation process for one successful tender. In both cases, pricing was the integral aspect of the tender process and Australian Paper had to reduce pricing to be more competitive with imported goods to be successful in a tender process. Further evidence was also provided of Australian Paper having to reduce pricing in the reseller market.

The evidence obtained by the Commission supports Australian Paper's contention that it has had to reduce its offered prices in tendering processes in an effort to compete with lower priced dumped Chinese, Indonesian, Thai and Brazilian goods, and that Australian Paper and associated reseller had lost tenders to these goods.

The Commission obtained evidence from tenderers indicating that while price was not the sole reason Australian Paper was not awarded supply contracts, Australian Paper was nonetheless less competitive on price.

Evidence was provided by Australian Paper of pricing offers of imported A4 copy paper imported from China, Indonesia and Thailand during the investigation period with very competitive pricing. The Commission considers that import offers and movements in the price of imported A4 copy paper are leveraged by customers to negotiate prices with Australian Paper in tender processes, and that Australian Paper must respond to the price of imported products by reducing its price offers to remain competitive.

8.7.3. The Commissioner's assessment – price effects

The Commissioner considers that Australian Paper has suffered price suppression and depression during the investigation period attributable to dumped imports from China, Indonesia, Thailand and Brazil.

8.8 Profit effects

8.8.1. Reduced profit and profitability

Whilst the Commission does not consider that dumped imports from China, Indonesia, Brazil and Thailand have caused injury in the form of lost sales volume, the Commission considers that the dumped imports have caused injury in the form of price depression and price suppression.

The Commission considers that, in a mature market and in absence of the dumped Chinese, Indonesian, Brazilian and Thai imports, Australian Paper would be able to achieve improved prices as the price point of its competitors would be higher. Accordingly, the Commission considers that Australian Paper would be in a position to increase revenue

without incurring additional costs based on increased unit selling prices being generated. In turn, this would improve profits and profitability.

As such, the Commission considers that Australian Paper has suffered injury in the form of reduced profits and profitability caused by dumped imports of A4 copy paper from China, Indonesia, Brazil and Thailand.

8.9 Injury caused by factors other than dumping

8.9.1. Introduction

Subsection 269TAE(2A) requires consideration of whether injury to an industry is being caused or threatened by factors other than the exportation of the goods. This provision contains a list of factors that the Parliamentary Secretary may have regard to when considering whether injury is being caused by factors other than exportation of the goods, but it is not an exhaustive list.

During the investigation the Commission either determined or was informed by interested parties of the following possible causes of injury⁴⁶:

- Imports from other countries and exporters not dumping;
- Depreciation and Appreciation of Australian Dollar;
- De-Inking Plant;
- Impact of United States Anti-Dumping Investigation;
- Bushfire & Chemical Spill Incidents during 2015;
- Australian Paper's imports of A4 copy paper;
- Restructuring and cost reduction activities;
- Changes in Australian Paper's market strategy;
- Market fluctuations;
- Australian business decision to maintain utilization rates; and
- Findings of 2013 investigation.

8.9.2. Fluctuations in the Australian market

Australian Paper stated in its application that the Australian market for A4 copy paper is considered to be a mature market and that it generally produces growth of 2 per cent per annum, with contractions in some periods. Australian Paper advised that 2015 was a period in which the market contracted. Australian Paper further advised that the Australian dollar fell during 2015 and, as consequence, it believed that the devaluation of the Australian dollar should have seen a rise in sales of domestic production, as locally produced goods become increasingly competitive with higher-priced, imported, goods. Australian Paper stated that this did not occur.

The Commission's preliminary assessment of the Australian market is consistent with Australian Paper's analysis. During the period 2012 to 2014 the Australian market grew before contracting in 2015. This is illustrated in Figure 10, below.

⁴⁶ See record numbers 8, 10, 25, 29 &35 for submissions in relation to other causes of injury

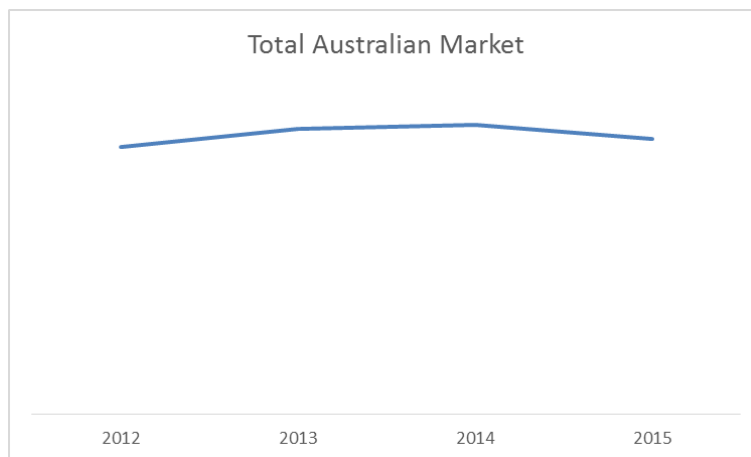


Figure 10: Australian A4 Copy Paper Market 2012-2015

Overall, the size of the market in 2015 is larger than the market in 2012. Both Australian Paper's sales volume and import volumes declined in 2015 when compared to 2014. Import volumes declined both from the countries alleged to have dumped and other countries. Proportionally, the decline in imports was greater than the decline in Australian Paper's sales which resulted in Australian Paper gaining a small increase in its market share.

Figure 11, below, illustrates movements in market share between 2012 and 2015.

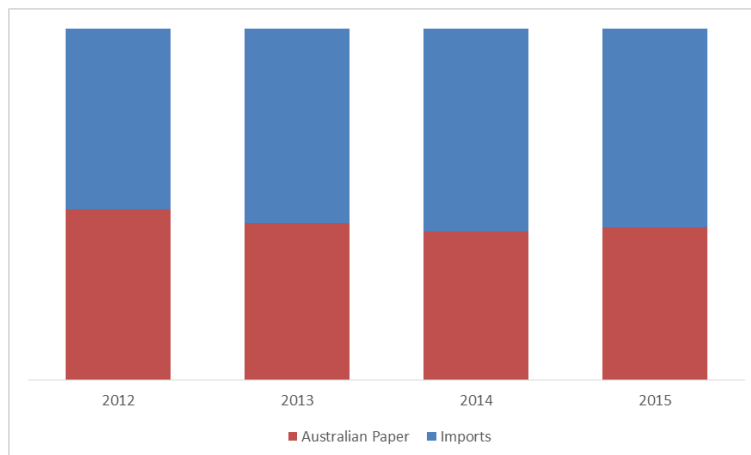


Figure 11 – Proportional Market share

Figure 11 illustrates that Australian Paper's market share has declined during the injury analysis period, with the most significant decrease occurring from 2012 to 2013. Australian Paper's market share increased slightly in 2015, however, still remains below the level recorded in 2012.⁴⁷

⁴⁷ Copy paper imported by Australian Paper was excluded from the import data analysed. Paper imported by Australian Paper are not models manufactured by themselves and tend to be more speciality type papers.

Overall, in comparing the market between 2012 and 2015, imports and market share from the countries alleged to have dumped imports have grown significantly in the same period in which Australian Paper's market share and sales volume have declined.

The Commission's assessment is that the decline in the Australian market in 2015 has probably contributed to Australian Paper's reduction in sales volume during the investigation period. As a consequence, it is not sufficiently clear from the available evidence for the Commission to draw the conclusion that the volume injury suffered by Australian Paper is because of dumped and/or subsidised imports from the nominated countries.

8.9.3. Imports from other countries and exporters not dumping

Of the remaining 22 other countries recorded as having imported A4 copy paper into Australia during the investigation period, the largest country not alleged to be dumping (i.e. not a nominated country by the applicant), accounted for less than 2.5 per cent of imported copy paper. Given the large number of countries not alleged to be dumping and the individual country import volumes, the Commission considers that these countries have imported insufficient volumes to have materially influenced prices in the market generally.

In relation to the exporter from China (Asia Symbol) found not to have dumped A4 copy paper during the investigation period, the import volumes from this entity were immaterial and, as a consequence, the Commission considers that this exporter has not materially impacted on the injury suffered by Australian Paper.

8.9.4. Depreciation of Australian Dollar

It is noted that the Australian dollar declined against the United States dollar and the Reserve Bank of Australia's trade weighted index over the injury analysis period. As a consequence, the Commission sought to assess the impact of fluctuations in the Australian dollar over the injury analysis period on Australian Paper's costs.

Details of the Commission's assessment of the impact of the depreciation in the Australian Dollar is included in the Australian industry verification report.

The Commission's assessment, in summary, is that in the context of a reduction on a reliance on imported raw materials and the overall reduction in CTMS during the period the Australian dollar declined, movements in the Australian dollar have not materially impacted on the injury claims made by Australian Paper.

8.9.5. Appreciation of Australian Dollar

Submissions received have stated that the injury suffered by Australian Paper during the 2011-2013 period was caused by the appreciation of the Australian dollar.

Given that the Commission is only able to draw a conclusion on the impact of dumped imports during the investigation period, the Commission is unable draw any conclusion on this allegation. However, it is noted that during the investigation period, a period in which the Australian dollar declined, Australian Paper prices continued to be undercut by exporters in the nominated countries found to be dumping.

8.9.6. 2013 Investigation

Submissions have raised the fact that the Commission found either no dumping or de minimis volumes of dumping in the 2013 anti dumping investigation. These submissions have sought to conclude that injury suffered by Australian Paper in the current investigation is also likely to be caused by factors other than dumping and or subsidisation.

The Commission notes that the 2013 investigation, apart from covering a differing investigation period, was in relation to slightly wider category of goods and did not include all the nominated countries in this investigation.

The Commission's analysis of Australian Paper's sales prices between 2012 and 2015 indicates that Australian Paper has suffered a material decline in prices between the two investigation periods. It should also be noted that Commission has adopted Australian Paper's weighted average prices in the 2013 investigation to establish a non-injurious price and unsuppressed selling price for this investigation (see Chapter 11).

8.9.7. De-Inking Plant

During 2015 Australian Paper commissioned the operation of a de-inking plant (DIP) at the Maryvale mill. The Commission sought to establish the impact of the commissioning of this plant on the cost to manufacture A4 copy paper during 2015.

Details of the Commission's assessment of the impact of the DIP is included in the Australian industry verification report.

In summary, the Commission assessment is that the commencement of the DIP marginally impacted the cost to manufacture A4 copy paper during 2015. However, the DIP has also assisted in reducing the impact of the decline in the Australian dollar when Australian Paper switched from imported recycled pulp to DIP sourced pulp during 2015.

8.9.8. Impact of United States Anti-Dumping Investigation

Australian Paper was subject to a United States anti-dumping investigation (US investigation) concerning certain uncoated paper exported from Australia, Brazil, China, Indonesia and Portugal. The US investigation was initiated in February 2015, with a preliminary determination made in relation to Australia during August 2015 and a final determination made in January 2016. The preliminary dumping margin applicable to Australian Paper was 40.65 per cent and the final dumping margin determination was 222.46 per cent. It is noted that the final determination was made outside of the investigation period.

Details of the Commission's assessment of the impact of the US Investigation is included in the Australian industry verification report.

The Commission's preliminary assessment is that the US investigation may have caused some general injury to Australian Paper but did not have an adverse impact on Australian Paper's cost to manufacture A4 copy paper or on domestic sales of A4 copy paper during the investigation period. On this basis it is not considered to have impacted on the specific claims of injury made by Australian Paper in its application.

8.9.9. Bushfire & Chemical Spill Incidents during 2015

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

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

8.9.10. Australian Paper's imports of A4 copy paper

Australian Paper imports small volumes of specialist cut sheet paper as a compliment to its range. These imports are not considered to be material to the cause of the injury suffered by Australian Paper due to the low volumes and the speciality nature of these products.

8.9.11. Australian business strategy and maintenance of its plant utilization rates

Submissions have indicated that Australian Paper's injury has been caused by its business strategy and the maintenance of its plant utilization rates, rather than seeking to reduce production. No evidence was provided to support these allegations. As a consequence, the Commission has not had regard to these allegations.

8.9.12. Restructuring and cost reduction activities

In its application Australian Paper disclosed that it had gone through a restructuring program during the injury analysis period. Australian Paper also advised that these activities had contributed to the reduction in its CTMS during the analysis period. The Commission has examined information provided by Australian Paper and is satisfied that these activities have not adversely impacted on the injury claims made by Australian Paper.

8.10 The Commissioner's assessment

8.10.1. Materiality

The Commission has taken into consideration other possible injury factors during the investigation period. In order to differentiate the effects of dumping from the effects of other factors that may have caused injury, the Commission has examined the effect dumping has specifically had on price and profit.

As noted in the price undercutting analysis, the Commission is satisfied that the Australian industry has been forced to lower prices to be competitive with dumped imports from Brazil, China, Indonesia and Thailand.

Given the materiality of the dumping margins found, as outlined at section 6, the Commission finds that the Australian industry's prices are lower than they otherwise may have been had A4 copy paper not been exported to Australia at dumped prices. In particular, this price pressure has contributed to price depression and suppression for the Australian industry, which has resulted in lower profits, profitability and reduced revenues.

The Commission is satisfied that an increase in price equal to the median dumping margin calculated, combined with the potential to achieve a greater market share in the absence

of dumped imports, would have enabled the Australian Paper to operate more profitably during the investigation period.

8.10.2. Causation

As previously discussed, the Commission is satisfied that A4 copy paper market is highly price sensitive. In this environment, Australian Paper must negotiate its pricing offers within the context of completion from import price offers. Furthermore, domestically produced copy paper can be directly substituted with imported copy paper. The goods are alike, have similar specifications and end-uses, and compete in the same markets. The evidence indicates that the importers' are either directly competing with Australian Paper and/or its distribution network. This has been verified during importer, exporter and Australian industry visits.

The Commission has also applied the relevant aspects of the Ministerial Direction on Material Injury and notes that dumping and subsidisation need not be the sole cause of injury and, although there is no minimum threshold to establish the market share required to demonstrate that dumped or subsidised imports have caused material injury, the volume of dumped and subsidised imports of A4 copy paper represented by around 52 per cent per cent of the overall Australian market for copy paper in the investigation period, which the Commission considers is sufficient to have caused material injury.

Based on the above assessment, the Commission concludes that dumping from Brazil, China, Indonesia and Thailand has caused material injury to the Australian industry in terms of price suppression, price depression, reduced profitability & profit, reduced revenue and reduced employment.

9. Non-injurious price

9.1 Preliminary Determination

The Commission has assessed that:

- a non-injurious price (NIP) for exports from Brazil, China and Thailand can be established by reference to Australian Paper's selling prices of A4 copy paper between 1 July 2012 and 30 June 2013; and
- given that a market situation finding has been made in relation to Indonesia, for the purposes of taking securities at this stage of the investigation, the full dumping margins determined in this report be applied to any IDD taken in relation to A4 copy paper exported to Australia from Indonesia.

9.2 Introduction

Interim dumping duty (IDD) may be applied where it is established that dumped imports have caused or threaten to cause material injury to the Australian industry producing like goods. The level of IDD imposed by the Parliamentary Secretary cannot exceed the margin of dumping.

Where the Parliamentary Secretary is required to determine IDD, the Parliamentary Secretary must have regard to the 'lesser duty rule' in subsection 8(5B) of the *Customs Tariff (Anti-Dumping) Act 1975* (Dumping Duty Act), unless one of the exceptions in subsection 8(5BAA) of the Dumping Duty Act applies.

The NIP is relevant to the application of the lesser duty rule.

9.3 Calculation of the NIP

Under subsection 269TACA(a), the NIP of the goods exported to Australia is the minimum price necessary to prevent the injury, or a recurrence of the injury, or to remove the hindrance to the Australian industry caused by the dumping of the goods.

The Commission generally derives the NIP by first establishing a price at which the Australian industry might reasonably sell its product in a market unaffected by dumping. This price is referred to as the unsuppressed selling price (USP).

The Commission's preferred approach, as outlined in chapter 23 of the Dumping and Subsidy Manual, to establishing the USP observes the following hierarchy:

- industry selling prices at a time unaffected by dumping;
- constructed industry prices – industry CTMS plus profit; or
- selling prices of un-dumped imports.

Having calculated the USP, the Commission then calculates a NIP by deducting the costs incurred in getting the goods from the export FOB point (or another point if appropriate) to the relevant level of trade in Australia. The deductions normally include overseas freight, insurance, into-store costs and amounts for importer expenses and profit.

9.3.1. Exceptions to the application of the lesser duty rule

Pursuant to subsection 8(5BAA) of the Dumping Duty Act, the Parliamentary Secretary is not required to have regard to the lesser duty rule where one or more of the following circumstances apply:

- a) the normal value of the goods was not ascertained under subsection 269TAC(1) because of the operation of subsection 269TAC(2)(a)(ii);
- b) there is an Australian industry in respect of like goods that consists of at least two small-medium enterprises, whether or not that industry consists of other enterprises.

9.3.2. Submissions received

Australian Paper made a submission on 2 September 2015⁴⁸ in relation to setting what it considered to be an appropriate unsuppressed selling price (USP) from which a NIP can be determined. In its submission, Australian Paper submitted that selling prices in the periods 2012 to 2014 were representative of the levels the Australian industry could achieve in the absence of injurious dumping and subsidisation. On this basis it submitted that it was appropriate to use the weighted average selling price for copy paper over the years 2012 to 2014, adjusted for the CPI to 2015 to determine a USP.

The methodology submitted by Australian Paper was adopted for the purposes of the initial PAD made on 29 September 2016. This proposed methodology was adopted as it was consistent the Commission's hierarchy of preferred methodologies.

9.4 The Commissioner's assessment

9.4.1. Brazil, China and Thailand

The Commission has again considered the appropriateness of Australian Paper's selling prices in the period 2012 to 2014 as representative of the prices it could achieve in the absence of injurious dumping and subsidisation. It is noted that in the earlier 2013 investigation by the Commission, either no dumping or negligible levels of dumping were established for the period between 1 July 2012 and 30 June 2013.

As a consequence, based on Australian Paper's submission and the Commission's findings in the 2013 investigation, the Commission considers that it is reasonable to consider that Australian Paper's selling prices during the investigation period from the 2013 investigation (i.e. 1 July 2012 to 30 June 2013) represent a period during which prices were unaffected by dumping. Further, as part of the 2013 investigation the Commission had an opportunity to verify the accuracy and completeness of this sales data.

Given the lapse of time between 2013 and the current investigation period, the Commission has adjusted these prices by the Consumer Price Index (CPI).

⁴⁸ See record number 71

9.4.2. Indonesia

For the reasons outlined in Chapter 6 and Appendix 2, the Commissioner is satisfied that, in accordance with subsection 269TAC(2)(a)(ii), the situation in the Indonesian A4 copy paper market is such that sales in that market are not suitable for use in determining a price under subsection 269TAC(1).

Accordingly, for this investigation, the Commissioner considers that subsection 8(5BAA)(a) of the Dumping Duty Act applies, and as a result, there is no requirement to have regard to the lesser duty rule in subsection 8(5B) of the Dumping Duty Act.

As a result, the Commission proposes that securities be taken at the full dumping margins determined in this report in relation to A4 copy paper exported to Australia from Indonesia.

10. Form Of Securities

10.1 Preliminary finding

In addition to making this PAD in relation to exports of the goods from Brazil and Indonesia and taking securities in relation to those exports, and as a result of receiving and considering further information, the Commission recommends amendments to the form and amount of securities taken in relation to China and Thailand following PAD 341.

The forms of measures for the purposes of this PAD and the amendment to the securities previously taken are:

- in respect of interim dumping duty (IDD) for China (excluding Asia Symbol), Indonesia and Thailand, a combination duty method (i.e. a combination of the fixed and variable duty method); and
- in respect of the IDD for Brazil, an ad valorem duty method.

10.2 Form of measures available

In relation to IDD, the methods that the Parliamentary Secretary may utilise to work out the duty are prescribed in the *Customs Tariff (Anti- Dumping) Regulation 2013* and include:

- Combination of fixed and variable duty method;
- Floor price duty method;
- Fixed duty method (\$X per tonne); and
- Ad valorem duty method (i.e. a percentage of the export price).⁴⁹

10.3 Form of securities applied following PAD 341

Following PAD 341, the Commonwealth took securities in respect of IDD that may become payable on goods exported from China and Thailand. The securities were worked out in accordance with the ad valorem duty method. The ad valorem method was adopted as the Commission considered that there were multiple models of A4 copy paper on the Australian market and that there were pricing differences between these models

10.4 Submissions received

The Commission received one submission⁵⁰ in regard to the proposed form of measures. This was received from Australian Paper. Australian Paper disagreed with the form of measures adopted in PAD 341. In summary, Australian Paper submitted that:

- A4 copy paper exports from the nominated countries are predominately 80 gsm paper and the volume of non 80 gsm paper is minor and is not significantly priced differently to 80 gsm paper;
- Australian Paper is concerned that exporters will reduce export prices to avoid the effect of the measures as the market is extremely price sensitive;

⁴⁹ Section 5 of the Customs Tariff (Anti- Dumping) Regulation 2013

⁵⁰ See record number 88.

- integrated exporters of A4 copy paper would be able to easily absorb losses across both their paper and pulp production facilities; and
- measures should be applied using a combination methodology so that exporters do not further reduce export prices to injurious levels.

10.5 Commissioner's assessment

The Commission in considering which form of measures use, has had regard to the Commission's *Guidelines on the Application of the Form of Dumping Duty 2013* (the Guidelines), relevant factors in the A4 copy paper market and submission received from Australian Paper.

The Guidelines set out issues to be considered when determining the form of duties. It is important to note that the various forms of dumping duty available all have the purpose of removing the injurious effects of the dumping. However, in achieving this purpose certain forms of duty will better suit particular circumstances more so than other forms of duty. The Guidelines list the key advantages and disadvantages of each form of duty.

The Combination duty method is considered appropriate where circumvention behaviour is likely (particularly because of related party dealings), where complex company structures exist between related parties, and where there has been a proven case of price manipulation in the market. Conversely, the combination duty method is less suitable in situations where there are many model types of the goods under consideration which exhibit a large price differential or where a falling market exists.

On the other hand, the ad valorem duty method is one of the simplest and easiest forms to administer when delivering the intended protective effect, is common in other jurisdictions, is similar to other types of Customs duties, is advantageous where there are many models or types and is suitable where the market prices of goods fluctuate over time. The ad valorem duty method may also require fewer duty assessments and reviews than other duty methods. Conversely, the ad valorem duty method has a potential disadvantage in that export prices might be lowered to avoid the effects of the duty.

During the course of conducting its exporter and importer verification visits, the Commission noted that:

- it was not satisfied that import transactions involving BJ Ball and APRIL were arms length transactions;
- it was not satisfied that import transactions between Fuji Xerox Australia and UPM were arms length transactions;
- UPM Kymmene, an entity with the UPM group of companies, was acting as a selling agent of UPM Asia Pacific and UPM China in the Australian market; and
- Double A was acting as an importer and distributor in the Australian market.

The Commission considers that these circumstances are indicative of a higher risk of circumvention as transactions are not necessarily at arms length. As a consequence, the Commission decided that the securities for China, Thailand and Indonesia should be calculated using a combination method. The Commission considers that the reason for applying a combination method outweigh any potential disadvantage of applying this methodology where there are multiple models in the market.

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In relation to Brazil, the Commission considers that an ad valorem method be used to calculate the IDD. Whilst Australian Paper argued that a combination method should be applied, no specific evidence was provided to indicate that circumvention via a reduction in export prices was likely to occur in relation to imports from Brazil. It is noted that if any evidence of such circumvention eventuates, an anti-circumvention inquiry could investigate these allegations.

11. Reason for Making Second PAD and Revision To Securities

11.1 Background

On 29 September 2016, the Commissioner made a PAD⁵¹ ('the original PAD'). The original PAD found that sufficient grounds existed for the publication of a dumping duty notice in respect of the goods exported to Australia from China and Thailand, and that it was necessary to require and take securities in relation to exports from China and Thailand to prevent material injury to the Australian industry occurring while the investigation continued.

Following the original PAD, the Commonwealth required and took securities as follows:

Country	Exporter	Dumping Margin
China	UPM	4.0%
	Asia Symbol & Greenpoint	4.4%
	Uncooperative and all other exporters	17.8%
Thailand	Double A (1991) Public Company Limited	18.8%
	Phoenix Pulp & Paper Co. Ltd	18.4%
	Uncooperative and all other exporters	23.1%

Table 14 - Preliminary measures summary – 29 September 2016

11.2 Further Assessment

The dumping margins ascertained in PAD 341A are a result of the Commission's preliminary market situation assessment, consideration of further submissions from interested parties and the verification of information subsequent to PAD 341.

The Commission has made a further assessment of dumping, which shows that:

- A4 copy paper exported to Australia from Brazil, China (excluding Asia Symbol), Indonesia and Thailand were at dumped prices;
- the volumes and dumping margins of the dumped goods are not negligible; and
- the available evidence indicates that dumped imports from all the nominated countries have caused the Australian industry to suffer material injury.

11.3 Amendment to Securities

Based on the further assessment as set out in this PAD, the Commissioner has revised the level of securities required and taken under section 42 in respect of interim duty that may become payable in relation to the goods exported to Australia from China and Thailand.

⁵¹ See record number 84

11.4 Second PAD

The Commissioner is satisfied that there are sufficient grounds for the publication of a dumping duty notice in respect of A4 copy paper exported to Australia from Indonesia and Brazil (in addition to China and Thailand).

As a result, the Commissioner has made a second PAD in relation to exports of the goods from Indonesia and Brazil pursuant to section 269TD. In making this PAD, the Commissioner has had regard to the application and submissions received within 37 days of the public notice of initiation of the investigation. The Commissioner has also had regard to other matters considered relevant including verified information and information gathered by the Commission or submitted by interested parties (where appropriate), including:

- data from importers;
- data from exporters;
- data submitted by the Australian industry; and
- submissions made between public notice of initiation of the investigation to the date of making this second PAD, where the consideration of that submission would not delay the issuing of this PAD.

Under subsection 269TD(4)(b), the Commissioner is satisfied that it is necessary to require and take securities to prevent material injury to the Australian industry occurring whilst the investigation continues. The Commonwealth will require and take securities under section 42 in respect of any IDD that may become payable in respect of the goods imported from Brazil and Indonesia and entered for home consumption in Australia on or after **Monday, 7 November 2016**.

The amount of IDD securities payable in relation to exports from Indonesia will be calculated on a combination method. The amount of IDD securities payable in relation to exports from Brazil will be calculated on ad valorem basis.

Securities will be at the level of the full dumping margins.

12. Appendices and Attachments

Appendix 1	List of submissions
Appendix 2	Particular market situation findings
Confidential Appendix 1	Preliminary calculations of export price, normal value and dumping margins
Confidential Appendix 3	Assessment of Australian market
Confidential Appendix 4	Price undercutting analysis and assessment
Confidential Appendix 4	NIP calculations

Appendix 1 – List of Submissions

Date Received	Submission from	EPR No.
22/04/2016	PT Indah Kiat Pulp & Paper Tbk, PT Pindo Deli Pulp and Paper Mills and PT Pabrik Kertas Tjiwi Kimia Tbk	5
05/05/2016	PT Indah Kiat Pulp & Paper Tbk, PT Pindo Deli Pulp and Paper Mills and PT Pabrik Kertas Tjiwi Kimia Tbk	6
05/05/2016	Government of China	8
20/05/2016	Central National Australia Pty. Ltd.	10
20/05/2016	Construction Forestry Mining & Energy Union National Office	11
20/05/2016	Double A	12
20/05/2016	Government of the Federative Republic of Brazil	13
20/05/2016	Sinar Mas Group	22
31/05/2016	Jackaroo Paper Pty Ltd	23
03/06/2016	Government of Indonesia	25
07/06/2016	Fuji Xerox Australia Pty Ltd	29
16/06/2016	Australian Paper	32
16/06/2016	Australian Paper	33
21/06/2016	Government of Indonesia	35
27/06/2016	Government of Indonesia	36
02/09/2016	Australian Paper	37
28/06/2016	Australian Paper	38
05/07/2016	Sinar Mas Group	39
05/07/2016	Australian Paper	40
05/07/2016	Australian Paper	41
13/07/2016	Sinar Mas Group	42
13/07/2016	Australian Paper	43
14/07/2016	Government of Indonesia	44
21/07/2016	Australian Paper	46
21/07/2016	Australian Paper	47
27/07/2016	Australian Paper	48
29/07/2016	Australian Paper	50
02/05/2016	Sinar Mas Group	52
05/08/2016	Australian Paper	54
10/08/2016	Australian Paper	55
17/08/2016	Government of China	57

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Date Received	Submission from	EPR No.
19/8/2016	Double A	61
19/08/2016	Sinar Mas Group	62
23/08/2016	APRIL	63
23/08/2016	Sinar Mas Group	64
25/08/2016	Australian Paper	65
26/08/2016	UPM	68
02/09/2016	Sinar Mas Group	69
02/09/2016	Government of Indonesia	70
06/09/2016	Australian Paper	71
06/09/2016	Australian Paper	72
09/09/2016	Australian Paper	75
16/09/2016	IP Brazil	77
20/09/2016	Sinar Mas Group	78
26/09/2016	Phoenix Pulp and Paper Public Co. Ltd	80
30/09/2016	Australian Paper	85
07/10/2016	Australian Paper	88
12/10/2016	Australian Paper	90
12/10/2016	Sinar Mas Group	91
12/10/2016	Sinar Mas Group	92
14/10/2016	Australian Paper	94
17/10/2016	Jackaroo	95
17/10/2016	Australian Paper	96
18/10/2016	Australian Paper	97
18/10/2016	Australian Paper	98
20/10/2016	UPM	100
21/10/2016	Australian Paper	101
21/10/2016	UPM	102
24/10/2016	Double A	103
24/10/2016	Sinar Mas Group	105
28/10/2016	Australian Paper	107
28/10/2016	Australian Paper	108
28/10/2016	Australian Paper	109
28/10/2016	Australian Paper	110

PUBLIC RECORD

Date Received	Submission from	EPR No.
3/11/2016	UPM	111
3/11/2016	Government of Indonesia	112
3/11/2016	Sinar Mas Group	113
3/11/2016	APRIL	114

APPENDIX 2 - PARTICULAR MARKET SITUATION FINDINGS

A2.1 Introduction

This appendix provides an assessment of Australian Paper's allegations that there were 'particular market situations' (market situations) within the Chinese and Indonesian A4 copy paper markets during the investigation period. This appendix details the basis of the Commission's assessment as to whether the alleged 'market situations' existed.

A2.2 Summary of Australian Paper's claims

In its application, Australian Paper alleged that during the investigation period 'market situations' existed in the Chinese and Indonesian A4 copy paper markets which rendered sales in these markets unsuitable for determining normal value under subsection 269TAC (1) of the Act.

The allegations made by Australian Paper concerning the existence of a 'market situation' in the Chinese A4 copy paper market are set out below.⁵²

- The GOC has materially distorted raw material input costs, including for pulp and chemicals,⁵³ which have in turn impacted the domestic selling price of the goods.
- The GOC has influenced domestic selling prices of the goods through providing subsidies to producers. These subsidies were in the form of exempted and / or reduced income tax, reduced interest payments on monies borrowed and other grants.
- The Chinese pulp and paper industry is a key strategic (encouraged) industry, which means that it has a separate five year plan to guide its development i.e. '12th Five Year Plan of the Paper Industry' and is eligible for GOC support.

The allegations made by Australian Paper concerning the existence of a 'market situation' in the Indonesian A4 copy paper market are set out below.⁵⁴

- The GOI has declared the Indonesian pulp and paper industry as a priority industry in its National Industry Policy.
- Expansion plans for the industry are consistent with the 'Indonesian Economy Acceleration and Development Expansion Masterplan'.
- The United States International Trade Commission's countervailing investigation into imports of uncoated wood free paper from Indonesia identified a number of subsidy programs being provided to the Indonesian paper industry. These programs

⁵² Submission number: 47.

⁵³ Identified raw materials included calcium carbonate, caustic soda, titanium dioxide and coal.

⁵⁴ Submission numbers: 48, 94.

included the GOI's: provision of standing timber at less than adequate remuneration; log export bans; and debt forgiveness programs.

A2.3 Framework for the assessment of a 'market situation'

The Act does not provide a definition of particular circumstances or factors which would satisfy the Minister that a 'market situation' exists. The WTO Anti-Dumping Agreement is similarly silent in relation to the definition of the concept of a 'market situation' referred to within Article 2.2. In relation to determining whether a 'market situation' exists, the Commission's Dumping and Subsidy Manual⁵⁵ states:

In considering whether sales are not suitable for use in determining a normal value under subsection 269TAC (1) because of the situation in the market of the country of export the Commission may have regard to factors such as:

- whether the prices are artificially low; or
- whether there are other conditions in the market which render sales in that market not suitable for use in determining prices under subsection 269TAC (1).

Government influence on prices or costs could be one cause of "artificially low pricing". Government influence means influence from any level of government.

In investigating whether a market situation exists due to government influence, the Commission will seek to determine whether the impact of the government's involvement in the domestic market has materially distorted competitive conditions. A finding that competitive conditions have been materially distorted may give rise to a finding that domestic prices are artificially low or not substantially the same as they would be if they were determined in a competitive market.⁵⁶

The Commission considers that the analysis of a 'market situation' can involve the consideration of all relevant market variables in relation to the subject good in totality and that the term 'a situation' for the purposes of this assessment defies precise definition.

The Commission considers 'a situation' to refer to the presence of a factor or composite factors which collectively operate to cause a degree of distortion in the market that renders arm's-length transactions in the ordinary course of trade in that market unsuitable for use in determining normal values.

More specifically, the Commission considers that a 'market situation' assessment involves an examination of factors which may affect the interaction of supply and demand in a sector, industry or market, to the extent that prices and costs in that market can no longer be viewed as being established under normal market principles.

In assessing a 'market situation', the Commission considers that governments can directly or indirectly influence domestic prices through the imposition of restrictions on how prices are charged for a product. This influence can be through:

1. direct price regulation (floor or ceiling pricing mechanisms); or

⁵⁵ Anti-Dumping Commission, Dumping and Subsidy Manual. http://www.adcommission.gov.au/accessadsystem/Documents/Dumping%20and%20Subsidy%20Manual%20-%20November%202015_20%20Nov%202015%20-%20final%20on%20website.pdf

⁵⁶ Anti-Dumping Commission, Dumping and Subsidy Manual, p 35.

2. indirect influence through policies that impact on the supply of the subject goods or the supply or price of major inputs used in the production of the subject goods.

The influence of a government does not, in itself, establish the existence of a 'market situation'. In assessing whether a 'market situation' exists, the Commission needs to examine both:

1. the effect such influence has on the market; and
2. the extent to which domestic prices are distorted and unsuitable for proper comparison with corresponding export prices.

The Commission considers that, in the context of this analysis, evidence of government policies and programs that specifically or indirectly flow to the relevant market under consideration may have an effect on domestic commerce with respect to the goods. The Commission holds that this information is relevant to the analysis of whether factors exist which can be characterised as a 'market situation' for the purposes of subsection 269TAC(2)(a)(ii) of the Act.

Consideration of whether a situation exists in the relevant market is concerned with the operation of policies and regulations (whether overt or implied) and their potential impact on the suitability of domestic selling prices for normal value purposes. Accordingly, the question to be answered is whether the relevant policies operate in a manner which:

- a) leads to a distortion of competitive market conditions in relation to the subject goods such that domestic sales are unsuitable for the purposes of determining normal value; and
- b) affects the conditions of commerce related to the production or manufacture of like goods such that the records of exporters cannot be relied upon to reasonably reflect competitive market costs associated with production in accordance with the provisions of subsection 43(2) of the Regulations.

A2.4 Evidentiary threshold

The Commission considers that the issue as to whether or not a 'market situation' exists in the domestic market of an exporting country is a matter for the Parliamentary Secretary to consider. In doing so, the Parliamentary Secretary ought to be satisfied on the basis of consideration of the totality of all relevant available evidence, that a 'market situation' exists for the purposes of subsection 269TAC(2)(a)(ii), in so far as the evidence provides a reliable understanding of the prevailing characteristics of the market for the goods in that country.

It is considered that the assessment as to whether a 'market situation' exists in a particular market constitutes a positive test. That is, before actual selling prices are rejected, the Commission needs to identify a 'market situation', and be satisfied that the 'market situation' renders the sales in that market not suitable for normal value purposes.

In undertaking this assessment, the Commission considers that the evidence does not have to be conclusive before a 'market situation' finding may be made. Rather, it must be relevant and reasonably reliable. The Commission emphasises that consideration of the existence and operative effect of government administered programs upon a domestic market is distinctly different to the determination of any countervailable benefits in a countervailing investigation.

A2.5 China and Indonesia as market economies

The Australian Government treats both China and Indonesia as market economies for anti-dumping purposes and the Commission conducts its investigation in the same manner for China and Indonesia as it does for other market economy members of the WTO. Irrespective of the country investigated, the Australian anti-dumping framework allows for the rejection of domestic selling prices as the basis of normal values within market economies where there is a 'market situation'.

A2.6 Information relied upon

The Commission provided the GOC and GOI with 'Government Questionnaires' in April 2016. Both the GOC and GOI returned completed questionnaires to the Commission.⁵⁷ In addition to providing questionnaire responses, the GOC and GOI have made submissions to this investigation.⁵⁸ The questionnaire responses and the submissions, where relevant, were considered in the Commission's 'market situation' assessments.

Submissions concerning the Commission's 'market situation' assessment were also received from the following parties. These submissions were also considered in relation to the Commission's assessment of Australian Paper's market situation allegations.

- PT Indah Kiat Pulp & Paper Tbk, PT Pabrik Kertas Tjiwi Kimia Tbk and PT Pindo Deli Pulp and Paper Mills.⁵⁹
- Australian Paper.⁶⁰
- APRIL Fine Paper Trading.⁶¹
- Fuji Xerox Australia.⁶²

In addition to the questionnaire responses and submissions, the Commission also obtained and considered information from the following sources.

- Information collected during the Commission's exporter verification visits.
- The Commission's independent research and analysis.
- Statistics and pricing information sourced from RISI and Hawkins Wright.
- United States ITC. Investigation C-570-023 (China) and C-560-829 (Indonesia).⁶³

A2.7 Previous Investigations undertaken by the Commission

The Commission has not previously investigated allegations of a 'market situation' in relation to the Chinese or Indonesian A4 copy paper markets.

⁵⁷ Submission numbers: 30, 27.

⁵⁸ Submission numbers: 8, 25, 35, 36, 44, 57, 70.

⁵⁹ Submission numbers: 5, 6, 22, 39, 52, 62, 64, 91, 94.

⁶⁰ Submission numbers: 33, 40, 42, 43, 47, 48, 54, 55, 72, 96.

⁶¹ Submission number: 63.

⁶² Submission number: 29.

⁶³ www.usitc.gov/investigations/701731/2015/certain_uncoated_paper_australia_brazil_china/final.htm

A2.8 Commission's approach to assessing 'market situations'

A2.8.1 Raw material inputs and pulp markets

When assessing the alleged distortions within key raw material input markets, the Commission has primarily focused on conditions within the Chinese and Indonesian pulp markets. The Commission adopted this approach as distortions within specific input markets will be considered by its countervailing investigation and because it is the Commission's view that any significant distortions within these other input markets would also be reflected in domestic pulp prices. In noting that the assessment of whether a 'market situation' exists must be undertaken at the level of the goods being investigated, the Commission viewed an assessment of the respective pulp markets as important as pulp typically comprises between 60 to 65 per cent of the total cost of copy paper.⁶⁴

When considering conditions within Chinese and Indonesian pulp markets, the Commission focused on the Bleached Hardwood Kraft (BHK) pulp segment. While the Commission is aware that a number of different types of pulp can be used to produce copy paper, the Commission understands, following consultation with Australian Paper and verified exporters, that BHK is the primary type of pulp used in both China and Indonesia.

When determining whether there was a 'market situation' within the Chinese and Indonesian A4 copy paper markets during the investigation period, the Commission has also considered conditions within the broader Chinese and Indonesian paper markets. This approach was adopted because it is the Commission's view that any government policies and programs concerning the A4 copy paper market are typically targeted at the broader paper industry.

A2.8.2 Government policy and programs

When considering the impact of government policies or programs on the Chinese and Indonesian A4 copy paper markets, the Commission's analysis focused on their likely impact, not their underlying objective. The Commission used this approach as the 'market situation' assessment concerns the distortion of domestic prices for the purposes of calculating normal values, as opposed to the reasons why policies or programs have been adopted. In using this approach, the Commission acknowledges the concerns raised by both the GOC and GOI that most forestry industries, including Australia's, have some degree of government involvement through the regulation of forestry and wood product industries or the involvement of state owned businesses in the harvest, regeneration and commercial sale of timber.⁶⁵

When assessing the degree to which government programs or policies have influenced domestic prices for A4 copy paper, the Commission considers it appropriate to also consider policies and programs which while not in affect during the investigation period may have had a significant impact on domestic market conditions during the investigation period. The Commission considers this approach appropriate as the impact of industry support and subsidy programs may persist for some time after they have ceased, especially when there

⁶⁴ ADC. Internal calculations.

⁶⁵ Government of China. Government Questionnaire Response, p13. Government of Indonesia. Government Questionnaire Response, p4.

is no explicit change in government policy or objectives. It is the Commission's approach to consider such policies or programs on a case by case basis, with particular regard to how the relevant program has impacted the underlying structure of an industry and how long ago the policy or program ceased to be in effect.

A2.8.3 Subsidy programs and findings in other jurisdictions

When assessing whether a 'market situation' is present in the Chinese and Indonesia A4 copy paper markets, the Commission has given consideration to analysis undertaken in support of its own countervailing investigation and investigations undertaken by other jurisdictions. When considering assessments conducted by other jurisdictions, the Commission does not automatically adopt the conclusions reached by the relevant authorities in that jurisdiction.⁶⁶

When considering the impact of government subsidy programs on conditions and pricing within markets, it is the Commission's approach to consider programs which have been deemed both countervailing and non-countervailing. The Commission adopts this approach as a 'market situation' assessment relates to a broader set of distortive influences than those considered by a countervailing investigation. In adopting this approach the Commission notes the concerns raised by the GOI and some Indonesian exporters that the Commission is unable to impose both countervailing duties and conclude that a market situation existing within the Indonesian A4 copy paper market. In regards to these concerns the Commission has decided to undertake both a countervailing and 'market situation' assessment and address these concerns when calculating dumping and countervailing margins.⁶⁷ Given that Australian Paper's 'market situation' and countervailing subsidies allegations cover similar programs, this 'market situation' assessment will not examine all the programs considered in the countervailing investigation, only those deemed by the Commission to be directly related to the issues of the existence of a 'market situation'.

A2.8.4 Price benchmarking

To determine whether the domestic price for Chinese and Indonesian A4 copy paper is suitable for use in determining normal values during the investigation period, the Commission undertook a comparison against a number of regional benchmark prices. These benchmarks were sourced from RISI and included a Chinese, Korean and Asian region benchmark. These benchmarks were then compared to pricing information obtained from verified exporter data to ensure their accuracy. The information obtained during the course of the Commission's exporter verification visits is confidential in nature and has not been disclosed as part of this assessment.

To undertake its analysis the Commission performed a number of adjustments to both the verified exporter data and RISI data to ensure its analysis was undertaken on a consistent basis. The adjustments included the conversion of 'reel' prices to 'cut paper' prices and adjustment for transportation costs. The Commission also made allowances for the different grades of paper which comprised the various benchmarks and verified exporter data. For example, when comparing domestic Chinese and Indonesian prices to regional

⁶⁶ Submission number: 96.

⁶⁷ Submission number: 5.

benchmarks the Commission focused on 70 to 80 GSM grades. The Commission adopted this approach because of the relatively low volume of 85 to 100 GSM product traded within China and Indonesia and the lack of a reliable regional benchmark to use in its comparison. It is the Commission's view that while adjustments were made, the information used was sufficiently accurate to enable the Commission to determine whether a 'market situation' was present in the Chinese and Indonesian A4 copy paper markets during the investigation period.

A2.9 Chinese pulp and paper industries

A2.9.1 Chinese pulp industry

Types of pulp used within China

The three main types of pulp produced in China are wood pulp, waste paper pulp (recycled paper pulp) and non-wood pulp. In 2015, wood, waste paper and non-wood pulp accounted for 28, 65 and 7 per cent of total pulp consumption (including imports).⁶⁸ Over the last decade waste paper pulp has been the largest and fastest growing source of pulp used in Chinese production of paper based products.

While all three types of pulp can be used to make uncoated woodfree paper, wood pulp is the primary pulp type used in the production of uncoated copy paper. Waste paper pulp is primarily used in newsprint and containerboard while non-wood pulp, made from straw, bamboo and bagasse, is primarily used in tissue and paperboard. It is the Commission's understanding that the key determinant of the type of pulp used for different products is their required strength and finish qualities. The different types of wood pulp used within the Chinese copy paper industry include BHK, BSK, UKP and mechanical pulp. Of these, BHK is the primary pulp used in uncoated copy paper.⁶⁹

Chinese pulp production, consumption and exports

Chinese domestic pulp production is dominated by two companies, Asia Symbol Shandong Pulp and Paper Co., Ltd (APRIL Group) and Hainan Jinhai Pulp and Paper Co., Ltd. (APP Group).^{70 71} Both these companies are part of large multinational paper groups who operate as FIEs in China. Combined these two companies account for around 75 per cent of domestic pulp production, with the next two largest pulp producers, Chenming Paper and Oji Holdings, accounting for a further 15 per cent.⁷² Recent growth in Chinese BHK pulp production capacity has primarily come from Asia Symbol, Chenming Paper and Oji

⁶⁸ China Paper Industry Annual Report. 2015. p10.

⁶⁹ RISI.

⁷⁰ Government of China. Government Questionnaire Response. p9.

⁷¹ Asia Pacific Resources International Trading (APRIL Group) is part of the RGE Group. Asia Pulp and Paper Group (APP) is part of the Sinar Mas Group.

⁷² RISI.

Holdings.⁷³ On a global scale, China has been the main source of consumption growth over the last decade, accounting for around 90 per cent of increased demand. At the same time demand for pulp in the rest of the world has fallen to pre-2004 levels.⁷⁴

While Chinese BHK pulp capacity and production has grown strongly over the last decade, the paper industry remains heavily reliant on imported pulp. Over the past decade, imported pulp has accounted, on average, for around 60 per cent of total BHK pulp consumption.⁷⁵ China's imports have typically been sourced through the supply chains of FIEs associated with multinational paper producers such as the APRIL Group, APP Group and UPM Paper Group. It is the Commission's understanding that pulp used to produce paper for export is typically imported,⁷⁶ owing to issues around perceived quality differences and timber origin certification. Over the same period there have been minimal exports of Chinese BHK pulp, less than 1 per cent of production, which are not only discouraged by the ongoing production deficit, but also a 10 per cent export tax duty.⁷⁷

Government intervention within the Chinese pulp market

While the Commission acknowledges that the majority of Chinese pulp supply is sourced from non-SOEs (SIE), it is the Commission's view that the GOC retains significant influence over the industry, especially through controls over market entry and industry development. The Commission's analysis also indicated that there were a significant number of subsidy programs available to both Chinese pulp and paper producers to assist them to achieve the GOC's specified objectives for the industry.

In terms of industry access, the GOC has indicated that the 'forestry operations and downstream pulp will typically be subject to requirements of the 'Catalogue of industrial structure adjustments' because of their size, complex corporate structures, investments and environmental foot print.'⁷⁸ This catalogue notes that pulp making projects are regarded as 'encouraged' in terms of investment approval and environmental evaluation, if the proposal entails: (a) a production line of pulp with annual production capacity of equal to or above 300,000 MT of chemical pulp or annual production capacity of equal to or above 100,000 MT of mechanical pulp; (b) a production line integrating wood, pulp and paper production with annual production capacity of equal to or above 100,000 MT or chemical pulp (excluding newsprint and coated paper); (c) a production line with an annual production capacity of equal to or above 100,000 MT of non-wood fibre pulp with clean production processes. Investment in production lines with annual production capacity of equal to or above 10,000 MT of recycled-paper pulp and investment in some outdated,

73 RISI.

74 PWC and Hawkins Wright. 2015. Global Forest and Paper Industry Outlook. p16.

75 ADC calculations. Data sourced from RISI.

76 Government of China. Government Questionnaire Response. p9.

77 RISI Analysis.

78 Government of China. Government Questionnaire Response. p19.

inefficient paperboard production lines are prohibited.⁷⁹ From its discussion with exporters during the course of its verification visits, it is the Commission's understanding that foreign investment in the Chinese pulp industry is also controlled through the GOC's 'Foreign Investment Industries Guidance Catalogue' (FDI Catalogue).

In regards to these documents, the Commission acknowledges the GOC's view that it's planning and policy directives, such as the Industry and FDI catalogues, are for guidance rather than enforceable directions to be followed by all levels of the GOC. However, it is the Commission's view that these directives have significant influence over which industries are supported by government planning bodies and hence on the broader structure of the identified or targeted industries. For example, the Commission notes that the government body responsible for these catalogues is the National Development and Reform Commission (NDRC), the same GOC body with responsibility for the overarching approval of large scale investment projects within China. It is the Commission's view that as the Chinese Government's central planning authority, the NDRC's directives would thus be central to both industry specific 'Five Year Plans' and the planning decisions of all levels of governments, more generally.

The central role of the NDRC in the development of the Chinese pulp and paper industry is also reflected in the 12th Five Year Development Plan of Paper Industry. This plan was published by the NDRC, Ministry of Industry and Information Technology, State Forestry Administration in December 2011. In addition to emphasising the need for improved environmental and resource management within the Chinese paper industry, this plan also expresses the need for industry regulation to: promote an industry structure driven by domestic demand; stabilise domestic market supply; control the repetitive construction of projects and excessive capacity; and guide orderly market competition.⁸⁰ The plan also identifies more specific objectives, including corporate restructuring to promote an industry structure characterised by a number of large enterprises and the coordinated development of small and medium sized enterprises. In regards to this objective the plan specifies that by 2015, there will be more than 20 large comprehensive pulp and paper enterprise groups whose annual output exceeds one million tonnes and several enterprise groups that rank among the world's top 100 paper enterprises in terms of gross sales. The plan also identifies the need to eliminate 10 million tonnes of outdated capacity over the 12th Five Year Planning period (2011-2015).⁸¹

In regards to actual support provided by the GOC to the pulp and paper industry to assist it achieve the objectives set out under the 12th Five Year Development Plan of Paper Industry, the Commission identified a number of central and provincial government programs. Two significant programs were the availability of reduced income tax rates for 'High or New Technology Enterprises' and VAT and import tariff exemptions on equipment. The Commission also identified a number of other programs available to individual pulp

79 Government of China. Government Questionnaire Response. p19. Exert from NDRC Directory Catalogue on readjustment of Industrial Structure. Catalogue for Guiding Industry Restructuring (2011 Version) (2013 Amendment) Catalogue of Encouraged Investment Industries.

80 NDRC. 2011. 12th Five Year Development Plan of the Paper Industry. p50.

81 NDRC. 2011. 12th Five Year Development Plan of the Paper Industry. p52.

producers, including the 'Environmental Protection Purchase Program (Rizhao City Finance Bureau)' and the 'Urban Waste Water Recycling Project (Rizhao City Finance Bureau).⁸² Further examples of assistance provided to integrated pulp and paper producers are detailed in Section A.2.9.2 of this assessment.

A2.9.2 Chinese paper industry

Types of paper produced in China

Within the Chinese paper and paperboard industry the largest product categories include, in terms of consumption, linerboard (22 per cent), corrugating medium (22 per cent), uncoated print and writing paper (16 per cent) and boxboard (13 per cent).⁸³ In terms of paper products, uncoated wood free paper accounts for around 40 per cent of total demand, followed by tissue paper (19 per cent), coated wood free paper (14 per cent), and wrapping paper (14 per cent).⁸⁴ Copy paper is the largest sub category of uncoated wood free paper.

Chinese paper production, consumption and exports

Based on information provided by the GOC, the Commission understands that the Chinese paper industry is characterised by a large number of small and medium sized enterprises with a relatively small number of large producers who account for a majority of production.⁸⁵ For example, the ten largest Chinese uncoated wood free copy paper producers account for around 65 per cent of total production. The largest producer, Chenming Paper Holdings, accounted for around 12 per cent of total production.⁸⁶ In terms of total entities, 'large and medium' sized producers account for 19 per cent of the total 2,791 producers, but around 66 per cent of revenue. In terms of entity types, it is the Commission's understanding, that 2 per cent are SOEs (or SIE); 11 per cent are FIEs; and the remainder (87 per cent) are private entities. In terms of industry revenue, SOEs (or SIE), FIEs and private enterprises account for around 8, 27 and 65 per cent respectively.⁸⁷

Over the last decade demand for both uncoated wood free paper and uncoated copy paper have grown steadily at an average rate of around 4 and 5 per cent a year.⁸⁸ Over the same period production has expanded by around 6 per cent a year to around 2.5 million tonnes in 2015. Around 70 per cent of this growth has occurred since 2010.⁸⁹ In contrast to the Chinese pulp industry, the expansion of uncoated copy paper production capacity has occurred across a number of different companies and regions. Most of this expansion has

⁸² Asia Symbol. Information provided during exporter verification visit.

⁸³ China Paper Industry Annual Report. 2015, p3.

⁸⁴ ADC calculations. Data sourced from RISI.

⁸⁵ Government of China. Government Questionnaire Response. p11.

⁸⁶ RISI.

⁸⁷ China Paper Industry Annual Report. 2015. p6.

⁸⁸ ADC calculations. Data sourced from RISI.

⁸⁹ ADC calculations. Data sourced from RISI.

been undertaken by FIEs or private companies. The largest individual contributors to the expansion of capacity include Asia Symbol and Chenming Paper.⁹⁰

The relatively strong growth in production compared to consumption has resulted in a significant increase in Chinese exports of uncoated woodfree paper products, including copy paper. Over the last decade, Chinese exports of uncoated copy paper grew at an average rate of around 15 per cent a year, from around 10 per cent of total production to 20 per cent.⁹¹ Uncoated copy paper exports accounted for around 41 per cent of total uncoated wood free paper exports in 2015.⁹² These exports have been predominately targeted at Asian and Oceania regions.

While there has been a significant relative and absolute expansion of Chinese copy paper exports over the last decade, it is the Commission's view that that this growth in exports has largely been the result of expanded production capacity rather than cyclical fluctuations in domestic demand. More specifically, over this period both growth in domestic demand and average mill capacity⁹³ has remained steady suggesting that a significant proportion of addition production capacity has been used to produce product for the export market as opposed to the domestic market. In drawing this conclusion, the Commission also notes that there have been a number of reports indicating that the Chinese paper industry is suffering from significant overcapacity and related financial difficulties. With regard to these reports it is the Commission's understanding that while there were significant issues with overcapacity and poor market conditions within the Chinese paper industry during the investigation period, these were primarily within the tissue, speciality paper, carton and container markets and not within uncoated copy paper grades.⁹⁴

Government intervention within the Chinese paper industry

During the course of the Commission's investigation, the GOC indicated that in terms of industry regulation, producers of A4 copy paper (uncoated woodfree paper) were not required to hold any additional licensing beyond the standard corporate business license and that there were no production limits placed on producers.⁹⁵

With regard to the GOC's direct involvement within the Chinese paper industry, it is the Commission's understanding that the presence of SOEs (or SIEs) is more prominent in the pulp and paper making segments as opposed to the distribution and retail segments. It is also the Commission's understanding that the degree of SOE (or SIE) involvement within the Chinese paper industry is significantly less than in other Chinese industries such as steel and aluminium production.

⁹⁰ ADC calculations. Data sourced from RISI.

⁹¹ ADC calculations. Data sourced from RISI.

⁹² ADC calculations. Data sourced from RISI.

⁹³ Mill capacity utilisation has average above 90 per cent over this period.

⁹⁴ PWC and Hawkins Wright. 2015. Global Forest and Paper Industry Outlook. p13.

⁹⁵ Government of China. Government Questionnaire Response. p19.

In terms of other forms of government involvement within the Chinese paper industry, the GOC indicated that in recent years Chinese paper producers have been subjected to stricter rules concerning environmental management, industrial waste management, water conservation and regulations concerning forest protection and tree harvesting. In support of these objectives the GOC noted that it encourages the use of modern and environmentally friendly equipment and technology by the paper industry, and the establishment of more efficient means of production.⁹⁶ The Commission notes that the increased focus on environmental conversation, including waste management and water conversation is in line with directives under the national and paper industry five year plans and is also reflected in the types of subsidy programs being made available to Chinese pulp and paper producers who were verified as part of the Commission's investigation.

Examples of subsidies accessed by UPM Paper included payments in relation to its: FGD project; water usage; and new employee training. It also received an Innovation Ability Development Fund grant and the City Bonus for Export Activity grant.⁹⁷ Similarly, AsiaSymbol (Guangdong) received subsidy payments from the Fund for Encouraging Development of Foreign Trade; Import Interest Subsidy program (for 2014); and Subsidy Income for Energy Management System program (for 2015). In context of these verified programs, the Commission notes that they were typically being provided at the provincial and city level of governments, as opposed to by the central government.

While the Commission acknowledges the GOC's position that the paper industry is not a 'development objective' under the national 12th Five Year Plan, the Commission notes that the papermaking and paper product industry is identified as an 'encouraged industry' under the 'Guangdong Implementation Plan for Industry Structure and Adjustment'. It is the Commission's view that this is a further example of GOC's coordinated support for the paper industry as previously discussed in the context of the 12th Five Year Development Plan of Paper Industry and NDRC directives. The emphasis given to the paper industry in Guangdong is also significant as Guangdong is the one of the largest paper producing provinces within China. Other major paper producing provinces are Shangdong, Zhejiang and Jiangsu. It is also the Commission's view, as previously noted, that these types of provincial planning documents are heavily influence by directives set out by the central government and the NDRC in particular.

In undertaking its assessment of GOC influence over market conditions within the Chinese paper industry, the Commission also reviewed the corporate reporting for a number of significant Chinese paper producers. This analysis identified a number tax incentives and subsidy programs which the Commission considers to be available to Chinese paper producers, including FIEs. It is the Commission's position, that while these reports may not directly correspond to the investigation period, they reflect examples of ongoing GOC support for the Chinese paper industry and hence need to be considered in the context of the Commission's 'market situation' assessment. Examples of such disclosures by

96 Government of China. Government Questionnaire Response. p20.

97 UPM Paper. Exporter Questionnaire Response.

Chenming Paper; Yueyang Paper; Sun Paper; and Nine Dragons Paper are documented below.⁹⁸

Preferential taxation programs, grants and other payments

Based on its analysis the Commission identified that UPM Paper, Chenming Paper, Yueyang Paper, Sun Paper and Nine Dragons Paper and their respective affiliated companies all received reduced tax rates, from 25 to 15 per cent, due to their status as 'high and new technology enterprises' under the 'Hi-Tech Enterprises' initiative.⁹⁹ The Commission notes that the 'Hi-Tech Enterprises' program was also available to Asia Symbol (Guangdong) and Asia Symbol (Shangdong), further demonstrating the broad accessibility of this program to Chinese pulp and paper producers.¹⁰⁰ In terms of taxation based incentives, the Commission notes that Chenming Paper's report also indicated that it received a reduced income tax rate under the 'Enterprise Income Tax' initiative.¹⁰¹

In terms of grants and other payments, it is the Commission's understanding that Chenming Paper received grants totalling around RMB 1.5 billion during 2015. It is also the Commission's understanding that these grants included assistance for Chenming Paper's restructuring to a fully integrated pulp and paper producer. Similarly, Yueyang Paper's 2014 annual report noted that the company had received government subsidies of RMB 224 million in 2013 and RMB 185 million in 2014. Nine Dragons Paper's 2015 annual report disclosed subsidy income of RMB 149 million in 2015 (RMB 134 million in 2014).¹⁰²

A2.9.3 Analysis and conclusion

Based on its proceeding analysis, it is the Commission's view that the GOC retains significant influence over the size and structure of the Chinese pulp industry. The Commission considers that this influence is likely to have caused some degree of distortion to the domestic price for pulp during the investigation period. In noting the likelihood of some distortion, the Commission views that from the perspective of its 'market situation' assessment, this distortion is unlikely to have caused domestic A4 copy paper prices to be unsuitable for the determination of normal values. In support of this view, the Commission notes that the domestic price for Chinese pulp is typically higher than comparable regional benchmarks and that the broader industry has significant exposure to external market

98 Shangdong Chenming Paper Holding Limited (Chenming Paper). Analysis based on 2015 Interim Annual Report. Yueyang Forest and Paper Co Ltd (Yueyang Paper) is a subsidiary company of Tiger Forest and Paper Group. Analysis based on 2014 Annual Report. Shandong Sun Paper Industry Joint Stock Co., Ltd (Sun Paper). Analysis based on 2014 Annual Report. Nine Dragons Paper (Holdings) Limited (Nine Dragons Paper). The Commission understand that Chenming Paper and Yueyang Paper are SIEs, while Sun Paper in a former SIE. Submission Number: 47.

99 Shangdong Chenming Paper Holdings Limited, Interim Report. 2015, p89. Yueyang Forest & Paper. Annual Report 2014, p98. Shangdong Sun Paper Co., Ltd. 2014 Annual Report, p110. Nine Dragons Paper Holdings Limited. 2015 Annual Report, p70 & 134.

100 No benefit received by Asia Symbol (Guangdong) during the investigation period as no profit was made.

101 Shangdong Chenming Paper Holdings Limited, Interim Report. 2015. p89.

102 Shangdong Chenming Paper Holdings Limited, Interim Report. 2015, p113. Yueyang Forest & Paper. Annual Report 2014, p11. Nine Dragons Paper Holdings Limited. 2015 Annual Report, p129.

forces which in the Commission's consideration has resulted in the broad alignment between domestic and regional pricing. These forces includes the significant presence of FIEs and the high dependency of China's paper industry on imported pulp.

In responding to Australian Paper's claims concerning GOC involvement in the Chinese paper industry, the Commission confirms the existence of numerous subsidy programs available to Chinese paper producers. The Commission also confirms, that a major focus of these programs has been to facilitate the restructuring of the Chinese industry to a more consolidated and larger scale production base and improved environmental management.¹⁰³ However, while acknowledging the existence of these programs, the Commission notes that the monetary value of these programs, when compared to total sales, is relatively small. It is also the Commission's view that while these programs are likely to have caused a degree of distortion to production and pricing, the extent of this distortion was not sufficient to render the domestic prices unsuitable for the determination of normal values under Section 269TAC (1) of the Act. This assessment is based on Commission's comparison of domestic A4 copy paper prices with regional benchmarks and its analysis of the degree to which the identified GOC influence had impacted conditions within the Chinese A4 copy paper market.

When undertaking this price comparison, the Commission notes that while the Chinese benchmark is significantly higher than the corresponding 'Asia' and 'Korean' benchmarks, it has followed the same broad trend over the last five years, including throughout the period of investigation. It is the Commission's view that this degree of correlation is an indicator that the Chinese copy paper market is responsive to underlying market conditions within the broader Asian region. With regard to the significant difference between the Chinese and regional benchmarks, it is the Commission's view that this difference primarily reflects the presence of 100 GSM grade paper in the Chinese benchmark. Given the Commission's inability to obtain a more directly comparable benchmark, the Commission also analysed pricing information from verified Chinese exporters which confirmed that domestic Chinese A4 copy paper prices (70-80 GSM grade) were consistent with the 'Korean' and 'Asia' price benchmarks during the investigation period. For example the Commission estimates that average domestic prices for Chinese A4 copy paper (70-80 GSM) ranged between USD 890 and USD 930 a tonne during the investigation period compared to between USD 900 and USD 965 (70-80 GSM) a tonne for the Asian region benchmarks.¹⁰⁴

In drawing this conclusion it is also the Commission's view that the primary focus of the GOC's involvement within the broader Chinese paper industry has been targeted at the pulp industry and that the downstream copy paper market is relatively open to domestic and international competition. This openness is reflected in the level and trend of Chinese benchmark paper prices in recent years, the significant presence of FIEs within China and the low level of barriers to trade including no export tariffs or quotas on A4 copy paper products.

103 PWC and Hawkins Wright. Global Forest and Paper Industry Outlook. 2015. p19.

104 Domestic prices for Chinese A4 copy paper based on domestic sales of verified exporters. The Asian region benchmark is based on the Korean (80 gsm) and Asia (70 gsm) benchmarks. Refer to Figure 12.

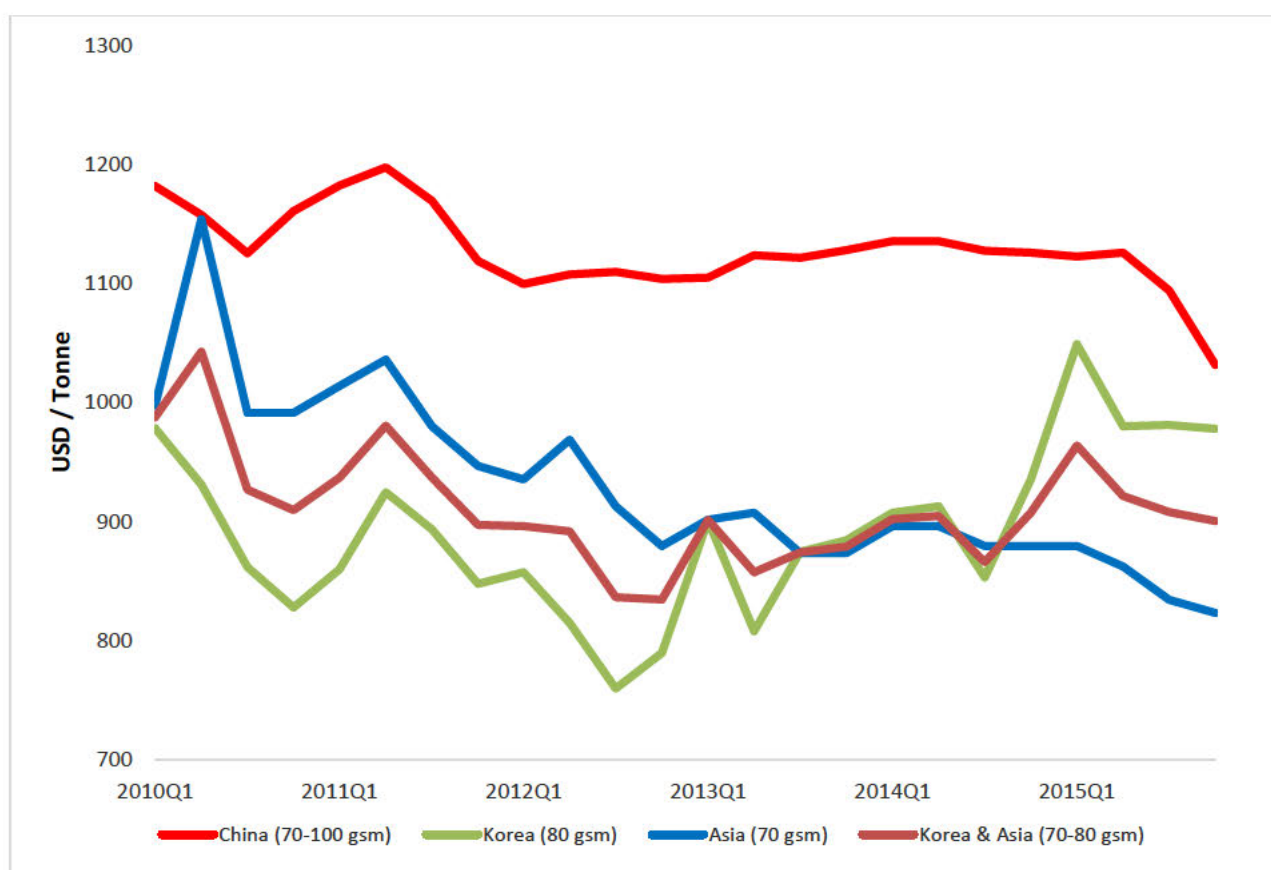


Figure 12 - Asian Region Cut Paper Pricing 2010 - 2015¹⁰⁵

A2.10 Indonesian pulp and paper industries

A2.10.1 Indonesian forestry and pulp industry

Indonesian forest resources

In total, Indonesia has around 86 million hectares of natural forests and 4.9 million hectares of plantations.¹⁰⁶ Indonesia's forest areas are primarily state owned (87 per cent) with the remainder privately owned or titled.¹⁰⁷ The key tree species used by the Indonesian pulp industry are acacia and eucalyptus, both of which are good plantation timbers because of their relatively short growing cycles.

In a global context, it is the Commission's view that access to these tree species along with Indonesia's soil and climatic conditions give Indonesia a natural comparative advantage in the production of timber. For example, Indonesian acacia species have a growth cycle of

¹⁰⁵ Data sourced from RISI.

¹⁰⁶ <http://www.timbertradeportal.com/countries/indonesia/>

¹⁰⁷ <http://www.timbertradeportal.com/countries/indonesia/>

between five to six years compared to 20 to 25 years in sub tropics regions.¹⁰⁸ It is also the Commission's view that in addition to this natural comparative advantage, Indonesia's forestry industries including pulp, have benefited from good access to land, financing and numerous GOI programs which have been designed to improve the management of natural forest and plantation timber availability for the benefit of domestic industry.

It is the Commission's understanding that around 50 per cent of logs used by the Indonesian forestry industry are consumed in pulp production with the majority of this timber being sourced from Industrial Forests (HTI) plantations.¹⁰⁹ It is also the Commission's understanding that while Indonesian pulp producers typically source some timber from their own and privately owned plantations, the majority of their timber comes from government owned (or licensed) plantations.

The pulp industry's share of total log consumption has increased in recent decades both because of growth in the pulp industry and decline within other forestry activities such as the manufacturing of plywood, sawn timber and veneer.¹¹⁰ Two important factors which have supported the relative growth of the Indonesian pulp industry are its access to fast growing plantation timber and strong growth in Chinese demand for imported pulp.

Indonesian pulp production, consumption and exports

In 2015, Indonesia wood pulp production was around 7 million tonnes. The primary type of pulp produced within Indonesia is BHK. Combined, companies associated with the Sinar Mas Group and APRIL Group account for around 90 per cent of Indonesian BHK capacity. Over the last decade Indonesian pulp production and consumption have both grown by around 2 per cent a year. As a result, the relative share of pulp production consumed domestically has remained relatively stable at between 50 to 60 per cent of total production. For the five years prior to 2010 the average portion of pulp used domestically was around 57 per cent. Post 2010 it fell to 53 per cent.¹¹¹

The main destination for Indonesian pulp exports is China, which consumed around 63 per cent of total exports in 2015, up from 38 per cent in 2005. The second largest importer of Indonesian BHK pulp is Korea, consuming around 14 per cent of Indonesia's BHK exports. An important factor in the growth of exports to China has been expansion of the APRIL and Sinar Mas Group's Chinese paper making operations.¹¹²

Government intervention within the Indonesian forestry sector

In its application, Australian Paper alleged that the domestic price for copy paper in Indonesia was not suitable for the determination of normal values because of the 'market situation' within the Indonesian A4 copy paper market. The allegation identified a number

¹⁰⁸<http://www.sukantotanoto.net/media-articles/april-on-the-challenges-faced-by-indonesian-pulp-paper-industry>

¹⁰⁹ <http://www.timbertradeportal.com/countries/indonesia/>

¹¹⁰ <http://www.timbertradeportal.com/countries/indonesia/>

¹¹¹ ADC calculations. Data sourced from RISI.

¹¹² ADC calculations. Data sourced from RISI.

of programs to be considered by the Commission's countervailing investigation, along with the broader GOI involvement within the industry.

In assessing whether there was a 'market situation' within the Indonesian A4 copy paper market during the investigation period, the Commission considers that the primary source of any distortion would likely be within the Indonesian forestry sector. The Commission has adopted this view as this sector and the supply of timber more specifically has been the primary focus of GOI forestry policies and related programs. While the objectives of these policies and programs have changed over time, they can be broadly categorised as promoting improved economic, social and environmental outcomes for the communities who are reliant on the forestry industry and the Indonesian economy more broadly.¹¹³ It is the Commission's view that irrespective of the intended objective of the policies and programs, by increasing the availability of timber, they have impacted on both the structure and development of Indonesia's forestry sector. It is the Commission's view that of all Indonesia's forestry industries, the pulp industry has been the largest beneficiary of increased access to timber as reflected in its increasing share of total timber consumption.

For example, the Food and Agriculture Organisation of the United Nations (FAO) noted that due to the increased timber availability, capacity utilisation within the Indonesian pulp industry rose from around 65 per cent in 1989 to 88 per cent in 2006.¹¹⁴ Based on the Commission's analysis, capacity utilisation has averaged around 92 per cent between 2005 and 2015. It is the Commission's view that the growth in pulp production which has resulted from increased timber availability has also facilitated the significant expansion in paper production and exports. For example between 1997 and 2007 Indonesian exports of paper and paper board rose from around 24 to 52 per cent of total production.¹¹⁵ Between 2005 and 2015, the corresponding share of Indonesian exports averaged around 72 per cent.

In drawing its conclusion regarding the GOI's ongoing support for the pulp industry, the Commission notes that the recent 'National Industry Development Master Plan 2015-2035' identifies the pulp and paper industry as a designated 'priority industry'. Other recent examples of GOI policies and programs which are focused on timber availability, include: the 'National Long Term Plan'; imposition of export bans on logs; the reversal of the ban on natural forest timber for pulp manufacturing; the provision of seven million hectares of natural forest concessions to assist the pulp and paper sector; and the issuing of permits to allow the use of timber waste for pulp.¹¹⁶

Indonesia's National Long Term Forestry Plan

The 'National Long Term Forestry Plan (2006 - 2025)' is the GOI's most recent overarching policy concerning the Indonesia forestry sector. In setting out its purpose, the plan notes that it is compiled for the national level to be used as reference for the forestry sector's medium term development plans as well as in the development of forestry activity plans by

113 FAO. 2010. Southeast Asia Subregional Report. Asia-Pacific Forestry Sector Outlook Study II. p86.

114 FAO. 2010. Southeast Asia Subregional Report. Asia-Pacific Forestry Sector Outlook Study II. p34.

115 FAO. 2010. Southeast Asia Subregional report. Asia-Pacific Forestry Sector Outlook Study II. p42.

116 FAO. 2010. Southeast Asia Subregional Report. Asia-Pacific Forestry Sector Outlook Study II. p31.

the national, provincial, municipality levels of government. The plan also notes that its purpose is to provide a guide and reference for all forestry stakeholders to realise the goal of forestry development in accordance with the mutually agreed development vision and mission and to maintain consistency in the management of forestry development from one period to the next in accordance with forestry resources management principles.¹¹⁷

The more specific objectives outlined by this plan include: (1) the creation of a strong institutional framework for forestry development; (2) increased value and sustainable productivity of forest resources; (3) forestry products and services that are environmentally friendly and competitive and have a high added value; (4) an enabling forestry investment climate; (5) promotion of forestry products and services; (6) an active role of society in supporting responsible and equitable forest management.¹¹⁸ In support of these objectives the policy identifies a number of 'missions' which include: (1) to create a strong institutional framework for forestry development; (2) to increase the value and sustainable productivity of forest resources; (3) to develop forestry products and services that are environmentally friendly, competitive and that have a high added value; (4) to develop an enabling forestry investment climate; (5) to increase the level of exports of forestry products and services; and (6) to improve social welfare and raise society's active role in supporting responsible and equitable forest management.¹¹⁹

While noting that the plan is focused on providing guidance and a framework within which other policies and programs are to operate, it is the Commission's view that it clearly demonstrates the Indonesian Government's intent to actively support Indonesia's forestry industries such as pulp production, particularly through ensuring favourable access to timber resources. Examples of such programs include the GOI's announcement in 2006 of its plans to implement a new type of plantation called Industrial Community Forrest Plantations (HTR). The objective of this program was to establish 5.4 million hectares of HTR plantation between 2007 and 2016 to accelerate forestry sector revitalisation.¹²⁰ Similarly, in 2011 the Ministry of Forestry announced large investments in the pulp and timber plantation sector. They included the construction of seven new pulp mills with the capacity of nearly five million tonnes and nearly two million hectares of new HTI timber plantations at an overall cost of USD 14 billion. This plan was to be implemented by 2017.¹²¹ It is the Commission's view that while the size of these plantations are relatively small when compared to Indonesian total forested areas, they represent significant expansions of its plantation forests of which the pulp industry is the primary user.

Restrictions on exports of wood logs and other raw materials

In addition to the broader National Long Term Forestry Plan, it is the Commission's view that the other most likely source of distortions within the domestic supply of timber is the

¹¹⁷ Ministry of Forestry. 2006. Indonesia's Forestry Long Term Development Plan 2006-2025. p1.

¹¹⁸ Ministry of Forestry. 2006. Indonesia's Forestry Long Term Development Plan 2006-2025. p32.

¹¹⁹ FAO. 2010. Southeast Asia Subregional Report. Asia-Pacific Forestry Sector Outlook Study II. p88.

¹²⁰ FAO. 2010. Southeast Asia Subregional Report. Asia-Pacific Forestry Sector Outlook Study II. p21.

¹²¹ CIROR. 2012. New Round of Pulp and Paper Expansions in Indonesia. p3.

export ban on logs. In support of this view the Commission notes that on average, log purchases account for around 25 per cent of the cost of finished paper. Export bans on Indonesian logs were introduced in the 1980s and then again 1990s. Based on information provided by the GOI, it is the Commission's view that the objective of these bans was to: increase competitiveness of national products; control the exploitation of natural resources; maintain the availability of raw materials for the domestic market; and to support a number of social objectives.¹²²

In addition to the general export ban on logs, it is the Commission's understanding, based on information provided by the GOI, that there is no ban on logs from plantation forests (removed in 2009); there is a five per cent export tariffs applied to wood chip but no tariff applied to either logs or pulp; and there are no export quotas for pulp.¹²³ While the Commission was able to confirm that no tariff applied to either logs or pulp and that there was no export quotas for pulp, the Commission was not able to confirm that the export ban of plantation forests had been removed in 2009. With regard to the GOI's stated objectives concerning this export ban, as previously noted, the Commission did not directly consider these objectives when assessing the existence of a 'market situation'. The Commission has adopted this approach as the purpose of the 'market situation' assessment is to determine the sufficiency of prevailing market prices for the calculation of normal values.

In considering the impact of the export ban, the Commission has primarily focused on its likely impact on the supply of plantation timber, as this is the primary source of timber used in pulp production. In undertaking this assessment the Commission notes that while most of the plantation timber used in pulp production is sourced from 'state owned' forests, a significant amount is also obtained from concessions operated by pulp producers and private tree farmers. With regard to plantations either owned or operated by pulp producers, it is the Commission's view that this timber is not directly affected by the export ban as it is grown for the purpose of producing pulp and hence it is unlikely that it would be exported irrespective of whether it was covered by the ban. The Commission has adopted this view because this timber is a key input into pulp producers production processes.

In the context of its 'market situation' allegation concerning the Indonesian paper industry, Australian Paper noted the export ban artificially depresses the price for domestically produced logs and thus the cost of both Indonesian pulp and ultimately paper. In support of its claims, Australian Paper highlighted the findings of the recent US ITC's investigation and comments by the Indonesian Forest Concessionaires Association who estimated that the ban had resulted in the price for timber from Indonesian natural forests being around half the price of tropical logs in international markets.¹²⁴

In determining whether the export ban had materially distorted the price of logs used in pulp production during the investigation period, the Commission notes that while the GOI is of the view that this program is not a subsidy, as per US-Export Restriction (DS 194), it can still be considered in the context of the Commission's 'market situation' assessment as it is

122 GOI Response. Attachment (10), p1. Minister of Trade (No. 44/M-DAG/PER/7/2012).

123 Government of Indonesia. Government Questionnaire Response. p15 and pp34-35.

124 http://www.lesprom.com/en/news/The_Indonesian_Forest_Concessionaires_Association_calls_for_lifting_ban_on_log_exports_63559/

potentially a government induced distortion of domestic A4 copy paper prices. The Commission also notes the GOI's claim that the use of programs to restrict the export of logs and related products is widespread throughout Asia.¹²⁵ Other countries with some form of log export ban include Thailand, the Philippines, Lao PDR and Cambodia.¹²⁶

In responding to Australian Paper's claims, the GOI noted that the wood used in the production of pulp is not covered by the export ban and hence the price for timber used in the production of pulp had not been distorted.¹²⁷ In support of this view the GOI indicated that the logs covered by the bans are those typically used in the furniture industry and not pulp production and that the prohibition does not relate to pulpwood which the GOI claimed was essentially scrap-wood as it includes logs of any size, with no regard to quality or standard.¹²⁸ The GOI also claimed that pulpwood and woodchip, is not covered by MOT 44/2012 and hence the export of pulpwood or woodchips created from pulpwood is not prohibited.

With regard to the export ban more generally, the Commission has not been able to confirm the GOI's claim that logs used in pulp production are not covered by the export ban.¹²⁹ While the Commission accepts that this may be a commercial reality concerning how the pulp industry operates, the Commission does not consider that it has been provided with sufficient information to draw this conclusion. Based on this assessment, the Commission considers the export prohibition is applicable to all types of logs and that in general, it is likely to have had a negative impact on timber prices as it would, as claimed by Australian Paper, increase the relative supply of timber. However, it is also the Commission's view that as the ban has been in operation for some time, the lower domestic log prices resulting from it, is likely to have reduced the returns achieved by both plantation operators and logging companies, which in isolation of other factors, would have a negative impact of plantation investment and ultimately the supply of timber.

In regard to there being no ban on the export of woodchips the Commission notes that by allowing woodchips to be exported some degree of alignment between Indonesian and international woodchip prices would eventuate. It is also the Commission's view that as these woodchips are made from the same wood used to make woodchips for the domestic pulp industry, there would be some degree of alignment between the price of wood used in domestic pulp production and the price of wood used for similar purposes in international markets. While concluding that there are a number of channels through which there would likely be some degree of alignment between domestic and international timber prices (for pulp production), it is also the Commission's view that as there are a number processes involved in turning plantation timber to woodchips, there are still a number of impediments to the full alignment of domestic and international timber prices.

125 Government of Indonesia. Government Questionnaire Response. p31.

126 ITTO. 2014. Biennial Review and Assessment of the World Timber Situation 2013-14. p10.

127 Government of Indonesia. Government Questionnaire Response. pp35-36.

128 Government of Indonesia. Government Questionnaire Response. p38.

129 Submission Number: 35.

As a result of these two issues, it is the Commission's view that the net impact of the export ban on Indonesian logs prices is likely to be negative. In drawing this conclusion the Commission also notes that Indonesia is likely to have a significant comparative advantage in timber production which means that the difference in Indonesian and international log prices should not be attributed solely to the ban and related supply focused policies. The Commission also notes that any comparison of Indonesian and Asian regional log prices would not account for the additional charges imposed on plantation operators by the GOI for land management and site remediation.¹³⁰

In an attempt to assess the impact of the export ban on domestic Indonesian log prices, the Commission undertook a comparison with Malaysian log prices. The Commission used Malaysian log prices due to similarities in growing conditions and timber species which would help to account for some of Indonesia's natural comparative advantage in timber production. While the Commission was able to obtain Malaysian log price data,¹³¹ its ability to undertake this analysis on a common basis was reduced because the available information was Malaysian trade data which reported export prices on a CIF basis. As the Commission was unable to obtain accurate transportation cost data a comparison of domestic Indonesian and Malaysian prices was not able to be undertaken. The Commission's analysis was also impacted by the different species of timber included in the Malaysian trade data compared to those used by Indonesian pulp producers.

It is the Commission's view that while it was unable to undertake its price analysis on an adjusted, like for like basis, it was clear that the difference between log prices in Indonesia and other regional markets could not be explained by transportation costs. For example, the price of Malaysian exports to Asian countries ranged from around USD 490 (Thailand) to USD 51 (Indonesia) with an average of around USD 113 per cubic metre. Given that the domestic price of Indonesian logs is estimated to be between USD 40 and 50 per cubic metre, it is the Commission's view that there are significant distortions within the Indonesian log market. Based on this analysis of price differentials between Indonesian log prices and those within other Asian countries, it is the Commission's view that in the absence of the ban there would be a significant incentive for Indonesian forestry sector to increase exports, causing a reduction in domestic supply and higher domestic prices.

A2.10.2 Indonesian paper industry

In 2015, copy paper accounted for around 50 per cent (or 1.7 million tonnes) of Indonesia's total uncoated wood free paper production. Between 2005 and 2015 copy paper production grew by an average rate of around 5.5 per cent a year. Since 2010 capacity increased by around 32 per cent (or 425,000 tonnes).¹³² The primary source of this growth has been the expansion of PT. Indah Kiat Pulp & Paper Tbk's Perawang facility (Sinar Mas Group). In

¹³⁰ Submission Number: 35.

¹³¹ HTS440399

¹³² ADC calculations. Data sourced from RISI.

recent years, average capacity utilisation rates of Indonesian paper mills have fallen to around 80 per cent of capacity down from 90 per cent pre 2012.¹³³

While Indonesian consumption of copy paper has grown strongly in recent years there remains a significant imbalance between domestic production and consumption, with around 70 per cent of Indonesian copy paper production being exported. The ratio of exports to total production has remained relatively stable over the last decade. As a share of total exports of wood free paper, copy paper accounts for 53 per cent in 2015 up from 37 per cent in 2005 and 41 per cent in 2010.¹³⁴ Indonesia exports copy paper to a number of regions including Asia (53 per cent), Europe (11 per cent), Middle East (12 per cent) and North America (8 per cent). Within Asia, the primary destination for Indonesian exports is Japan (26 per cent) and Malaysia (7 per cent).¹³⁵

The GOI indicated that there are 62 private pulp and paper companies registered with the Indonesian Pulp and Paper Association. The GOI also indicated that all companies operating in the copy paper industry are privately owned and that the GOI is not a shareholder in any pulp or paper companies.¹³⁶ The primary producers of A4 copy paper within Indonesia are the Sinar Mas Group and the APRIL Group, both of which are integrated paper producers with their own upstream raw materials and input facilities.¹³⁷ The Sinar Mas Group and the APRIL Group have a combined copy paper capacity of 2.2 million tonnes. The GOI also indicated that there is no guidance price for pulp and paper products within Indonesia.¹³⁸

Government intervention within the Indonesian paper industry

When assessing the existence of a 'market situation' within the Indonesian A4 copy paper market it is the Commission's view that the primary beneficiaries of the identified GOI policies and programs was the Indonesian pulp industry. In drawing this conclusion the Commission acknowledges that Indonesian paper producers are also likely to have benefited through access to cheaper pulp either when purchased from unrelated or related parties in the context of integrated paper producers such as the Sinar Mas and APRIL Groups. It is the Commission's view that access to cheap pulp is also likely to have improved the international competitiveness of Indonesian paper producers and provided a significant incentives for the expansion in production and exports which has occurred over the last decade.

In context of other possible sources of distortions within the Indonesian A4 copy paper market, it is the Commission's understanding that there are no special or preferential

¹³³ ADC calculations. Data sourced from RISI.

¹³⁴ ADC calculations. Data sourced from RISI.

¹³⁵ ADC calculations. Data sourced from RISI.

¹³⁶ Government of Indonesia. Government Questionnaire Response. p9.

¹³⁷ Government of Indonesia. Government Questionnaire Response, p3. Sinar Mas Group refers to: PT Indah Kiat Pulp & Paper Tbk; PT Pindo Deli Pulp and Paper Mills; PT Pabrik Kertas Tjiwi Kimia Tbk. APRIL Group refers to PT Riau Andalan Pulp and Paper (RAPP) and its other affiliated crossed-owned companies.

¹³⁸ Government of Indonesia. Government Questionnaire Response. p8.

taxation arrangements available to either pulp or paper producers. It is also the Commission's understanding that Indonesian pulp and paper producers are subject to the same rates as all other industrial companies, namely, 25 per cent for companies with revenue over 50 billion rupiah.¹³⁹ The GOI also indicated that there is no differential tax treatment for FIEs and Indonesian domestic owned private enterprises.¹⁴⁰

Based on information provided by the GOI, it is the Commission's understanding that with regard to paper products there is currently a five per cent import tariff but no export tariff or export quotas.¹⁴¹ Information collected during the course of the Commission's verification visits confirmed that there had been no export restriction or VAT rebates in place for Indonesian A4 copy paper exports for the last five years. The Commission's verification visits also confirmed that there were direct or indirect price control or guidance concerning A4 copy paper within the Indonesian market.¹⁴²

A2.10.3 Analysis and conclusion

Based on the analysis presented in the report, it is the Commission's assessment that there is a 'market situation' within the Indonesian A4 copy paper market. In line with this finding it is the Commission's view that the domestic price for Indonesian A4 copy paper is not suitable for the determination of normal values under subsection 269TAC(1) of the Act.

In support of this view, the Commission notes that the domestic price of Indonesian A4 copy paper is significantly below comparable regional benchmarks. For example the Commission estimates that average domestic prices for Indonesian A4 copy paper (70-80 GSM) ranged between USD 800 and USD 880 a tonne during the investigation period compared to between USD 900 and USD 965 (70-80 GSM) a tonne for the Asian region benchmarks.¹⁴³ It is the Commission's view that the distortion of the domestic price for A4 copy paper is the direct result of the GOI's involvement within the forestry and pulp industries through its support for the development of timber plantations and its prohibition on the export of timber logs.

It is the Commission's view that these programs have increased the availability of timber relative to demand and hence resulted in artificially low prices for Indonesian logs and pulp. It is the Commission's view that without these interventions, the price for timber and pulp would be above levels experienced in the investigation period and that these higher input cost would also be reflected in a higher domestic prices for A4 copy paper.

In drawing this conclusion the Commission acknowledges both the inherent distortions within other Asian region pulp price benchmarks and the fact that Indonesia has a significant natural comparative advantage in the production of timber and pulp due to the

139 Government of Indonesia. Government Questionnaire Response. p13.

140 Government of Indonesia. Government Questionnaire Response. p9.

141 Government of Indonesia. Government Questionnaire Response. p34. Attachment (5).

142 PT IDAH KIAT PULP & PAPER TBK. Exporter Questionnaire Response. pp 39-43.

143 Domestic prices for Indonesian A4 copy paper based on domestic sales of verified exporters. Estimates include adjustments for transportation costs into the Asian region. The Asian region benchmark is based on the Korean (80 gsm) and Asia (70 gsm) benchmarks. Refer to Figure 12.

previously identified factors which would account for some of the difference in benchmark pricing. The advantages not only relate the benefits associated with access to favourable tree species and climatic conditions but also the production techniques, economies of scale and linkages to key growth markets associated with the involvement of the Sinar Mas and APRIL Groups in the Indonesian pulp industry.^{144 145}

The Commission also acknowledges that the Indonesian A4 copy paper is relative open to international competition because of its low levels of trade restrictions including export licensing requirements, export tariffs or quotas. It is the Commission's view that this openness along with low domestic prices has helped to encourage the strong growth in Indonesia A4 copy paper exports in recent years.

144 <http://www.sukantotanoto.net/media-articles/april-on-the-challenges-faced-by-indonesian-pulp-paper-industry>

145 EY Global Forest Products, Paper and Packaging Report 2013. Reaching Out: Opportunities in the New Rapid Growth Markets. p42.