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23 February 2017

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

Public File

Dear Mr King

Investigation No. 341 – A4 Copy Paper exported from Brazil, P R China, Indonesia and Thailand – Government of Indonesia Supplementary Questionnaire Response

I. Background

I refer to the Government of Indonesia's ("GoI") response to the Supplementary Questionnaire forwarded by the Anti-Dumping Commission in Investigation No. 341 – A4 Copy Paper exported from Brazil, China, Indonesia and Thailand.

The GoI response includes a number of comments that Australian Paper Pty Ltd ("AP") considers it appropriate to comment on.

II. Supplementary Questionnaire

Following the publication of Statement of Essential Facts No 341 ("SEF 341") on 9 December 2016 and Preliminary Affirmative Determination No. 341B ("PAD 341B") on 16 December 2016, the Anti-Dumping Commission ("the Commission") provided the GoI with an opportunity to "*clarify certain aspects of the GoI's original RGQ and obtain further information relevant to the investigation, particularly in relation to the preliminary finding that the situation in the Indonesian domestic market for like goods is such that selling prices in that market are not suitable for the purposes of establishing normal value*".

The GoI's response to the Supplementary Questionnaire was due by 13 February 2017. The GoI response was available on the EPR on 21 February 2017.

III. Indonesian Forestry Industry

1. Timber species used within Indonesian pulp industry

The GoI's supplementary questionnaire response confirmed the Commission's understanding (as detailed in SEF 341 at A2.10.1, p.121) that Indonesia produces both acacia and eucalyptus timber for the purpose of producing pulp used in copy paper. The GoI further confirmed that all acacia and eucalyptus timbers in Indonesia used in the pulp and paper industry are grown in industrial forest (HTI).

The GoI confirmed that the acacia and eucalyptus timbers are used in the production of "predominantly woodchips and pulp" which further confirms the Commission's understanding

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of the end-use of harvested timber. The GoI submitted that some exports of woodchip are made to China and Korea. AP contends that the exported woodchip is intended for associated/affiliated pulp and paper producers in either country.

It is noted that some acacia and eucalyptus timber is used in the woodwork and furniture industry, however, this is typically for much larger sized timbers.

The GoI states that some acacia and eucalyptus is imported from Malaysia, however, this cannot be differentiated in the Indonesian import statistics.

The GoI's responses to the timber species consumed in the Indonesia pulp and paper industry is consistent with the Commission's understanding as detailed in SEF 341. The GoI has not provided any new information on raw material timbers consumed in pulp and paper production in Indonesia that the Commission was not previously aware of.

2. Indonesia's softwood market

The GoI has not provided the Commission with the requested information concerning the volume and value of domestic softwood production, or details of imports and exports of softwood timber (including whether in log or woodchip form). The GoI submits that softwood timber is not of relevance in Investigation No. 341 as domestic softwood timber is used for sap production only.

It is stated by GoI that there is no breakdown (or differentiation) in Indonesia's import statistics between softwood and hardwood timber.

Additionally, the GoI indicates that there is no detailed information available on domestic production and imported softwood maintained by the government in Indonesia.

3. GoI's classification of pulpwood

The GoI confirmed that raw materials used in pulp production is not scrap wood from other forestry activities. The raw materials for pulp production is acacia and eucalyptus timber harvested from industrial forests (HTI).

4. Indonesia's comparative advantage in timber production

The Commission has referenced Indonesia's comparative advantage in timber production in SEF 341 (refer Section A2.10.4). The Commission acknowledged that Indonesia's comparative advantage in the production of timber would account for "some of the difference in benchmark pricing" for pulp costs between Indonesia and other Asian countries (i.e. China and Korea).

In its SQR, the GoI comments on the comparable production costs of pulpwood for Indonesia and other comparable countries and confirms that there are "no stumpage fees in Indonesia". The stumpage fee is the price that is paid (in this case to the GoI to harvest the land which it owns) for the right to harvest the acacia and eucalyptus timber confirmed by the GoI for use in pulp and paper production in Indonesia.

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AP considers that the Commission's assessment in SEF 341 that the advantages enjoyed by pulp producers in Indonesia "*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* (sic)." The absence of a market-based stumpage price (or the application of low royalty fees as a substitute for stumpage fees) for harvested timber required by the GoI is a key contributing factor to the differential in the comparative benchmarks for pulp prices.

AP concurs with the Commission's further statement that the openness of the Indonesian copy paper market "along with the low domestic prices" has been the catalyst for rapid growth in A4 copy paper exports from Indonesia in recent years.

AP rejects the contentions of the GoI that Indonesia's pulp and paper prices have not been distorted by the GoI's intervention into the pulp and paper industry. The GoI's long term industry plan as discussed by the Commission at Section A2.10.1, P.122 details the aims and objectives for the Indonesian pulp and paper industry and confirms the GoI's role in ensuring that the sector benefits from low priced inputs to enable it to artificially expand and grow exports of pulp and paper.

The GoI's conclusion that there is no particular market situation for A4 copy paper in Indonesia is not unexpected but is not supported by the available evidence. The GoI has acknowledged that 'there are no stumpage fees in Indonesia' and that the policies and plans for the pulp and paper sector afford the industry an advantage that extends beyond the favourable climatic conditions for growing raw material acacia and eucalyptus timber.

AP reiterates earlier representations and supports the Commission's finding in SEF 341 that a market situation for A4 copy paper in Indonesia is evident as supported by a comparison of domestic pulp (and A4 copy paper) prices with benchmark prices.

IV. Questions relating to original Response to Government Questionnaire

The second part of the SQR relates to responses in the original GoI questionnaire response. The Commission has requested details on whether the acacia and eucalyptus logs used in pulp production are the subject of export bans imposed by the GoI. The GoI has responded that Ministry of Trade Decree No 44/M-DAG/PER/7/2012 concerning the Export prohibition on Certain Goods applies to logs that are alleged to be "big round wood" that has a diameter of more than 30cm.

AP notes the comments of the GoI. However, there exists a conflicting answer from the GoI in response to whether there are any exports of acacia or eucalyptus logs, which confirms there were no exports in 2015.

AP finds itself in agreement with the view of the US Department of Commerce that the export ban on logs operates to provide low-cost inputs for those industries that consumes those inputs, specifically in relation to the recent the US investigation into uncoated woodfree paper exported from Indonesia[1]:

[1] Memorandum, 8 January 2016, Countervailing Duty Investigation of Certain Uncoated Paper from Indonesia, Issues and Decision Memorandum for the Final Affirmative Determination, P. 19.

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> *".....the GOI confirmed that a ban on the exportation of logs was still in effect during the POI, although under a new Ministry of Trade decree. It also noted that during the POI it was not illegal to export chipwood or pulpwood. Neither the GOI nor the APRIL companies placed any additional information on the record to counter our preliminary determination that the ban on log exports continues to be in effect (only downstream log products (e.g. wood chips and wood pulp) are allowed to be exported). In addition, the petitioners and the GOI submitted information showing that* ***the Log Export ban's effect is to grow the wood processing industry, to encourage processing industries in Indonesia, and to suppress prices in Indonesia****.* (emphasis added)"

The impact of the GoI's regulations is that the input prices for harvested timber in Indonesia (i.e. acacia and eucalyptus) are lower than they otherwise would be and that the GoI through its intervention has caused the Indonesian domestic prices for pulp used in paper production to be lower than it otherwise would be.

V. Conclusions

The GoI's SQR to the Commission does not provide any additional information that can be considered to detract from the Commission's preliminary finding in SEF 341 that a particular market situation exists in the Indonesian domestic market for A4 copy paper.

The available information supports the Commission's preliminary finding that the GoI's role in implementing policies and plans for the Indonesian pulp and paper industry via its National Long Term Forestry Plan (2006 – 2025) results in artificially low harvested log prices that cause raw material domestic pulp prices to be artificially low in Indonesia. As such, it can be reliably concluded that a market situation for A4 copy paper applies in the Indonesian domestic market as evidenced by benchmarks prices for pulp and price in the Asia region.

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

Yours sincerely

Matt Decarne
Trade Affairs Manager