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The Director  
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## Public File

Dear Sir/Madam

### **Review 551 – Review of variable factors - A4 Copy Paper exported from Brazil, China, Indonesia and Thailand**

#### I. Background

We refer to the Review of variable factors Investigation No. 551 (“Review 551”) concerning the export of A4 copy paper to Australia from The Federative Republic of Brazil (“Brazil”), The People’s Republic of China (“China”), The Republic of Indonesia (“Indonesia”) (Except by Pt. Indah Kiat Pulp & Paper Tbk, Pt Pabrik Kertas Tjiwi Kimia Tbk and Pt. Pindo Deli Pulp & Paper Mills) and The Kingdom of Thailand (“Thailand”).

Paper Australia Pty Ltd (hereafter referred to as “Australian Paper”, or “AP”) has reviewed the importer questionnaire for Officeworks Pty Ltd (“Officeworks”) (EPR Document No. 011) and questionnaire and submission by Jackaroo Pty Ltd (“Jackaroo”) (EPR Document No. 012 & 14 respectively).

Australian Paper provides the following relevant comments concerning matters raised in the respective submissions.

#### II. Imports of A4 copy paper from China

In 2015 Chinese exports to Australia were approximately 58,000 tonnes (or 28 per cent of the market). The Anti-Dumping Commission (“the Commission”) subsequently found in Investigation 341 that dumped imports (from all four sources – Brazil, China, Indonesia and Thailand) constituted approximately 52 per cent of the Australian market in 2015. The imports from China, therefore, were more than half of total dumped imports in 2015.

In April 2017 anti-dumping measures were implemented on imports from a number of countries including China (at margins ranging between 3.1 - 34.4 per cent), with [Supplier] China being at the top end of the range. Following a Federal Court decision, the dumping margin for [Supplier] China was reduced to 4 per cent in 2019.

Whilst there has been a reduction in the dumping margin for [Supplier] China, the domestic cost to produce A4 copy paper for Australian Paper (AP) has increased by XX per cent since the 2015 investigation period. Due to continued competition from countries dumping copy paper, AP’s weighted average selling price has increased only X per cent over the period (since 2015), which is indicative of price suppression to AP, resulting in further deteriorations of profit and profitability. As a result of exporters continuing to undercut the domestic industry, AP’s cost to make and sell (CTMS) for copy

paper is now above the weighted average sell price (see Figure 1 below) – i.e. AP is incurring losses on its domestic sales of A4 copy paper.

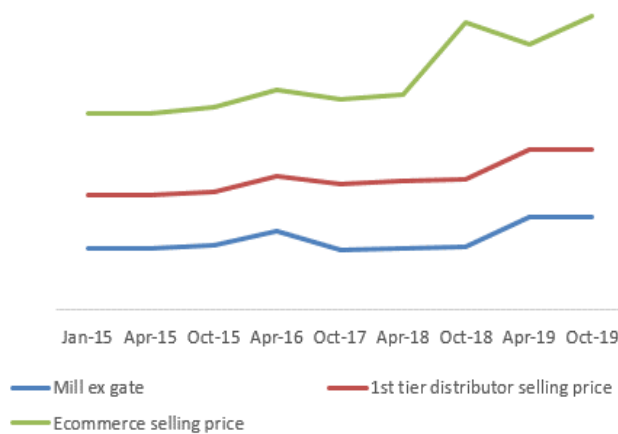
**Figure 1 – AP Selling price v CTMS**

[Confidential pricing and cost chart]

According to Fastmarkets RISI, global pulp prices have increased by 9.5 per cent since 2015, with projections for further increases of 15 per cent over the next two years. Energy prices are also set to continue the increases of recent years. These expected cost increases are in line with industry trends and confirm market intelligence which suggests domestic prices in China have also increased.

The price increases referred to for Chinese producers are reflected in APP’s Chinese sell prices in Chart 1 and April’s domestic Chinese pricing in Chart 2 below.<sup>1</sup>

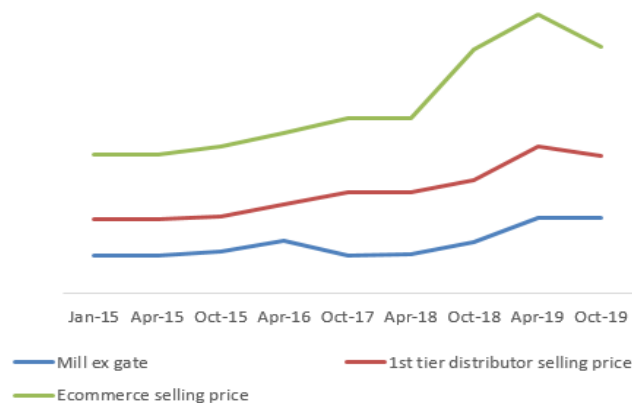
Chart 1 - APP “Flagship” domestic prices ex factory, first tier distributor and e-commerce



Source: Market survey at Confidential Attachment 2.

<sup>1</sup> These Charts are contained in a confidential market intelligence report submitted to the Commission in the conduct of Review 551.

**Chart 2 – April “PaperOne” domestic prices ex factory, first tier distributor and e-commerce**



Source: Market survey at Confidential Attachment 2.

The available evidence suggests that the ‘normal value’ in China has increased significantly since the original dumping margins were calculated (when contrasted with the 2015 year, upon which the measures are based), and that the gap between this base price, and the low export prices to Australia has widened. It is Australian Paper’s expectation that the margin by which the exporters are dumping (as export prices have not reflected shifts in costs) will have increased.

This means that both the price floor set by the Commission in 2017 (based on 2015 data) and the dumping margin itself are no longer adequate to prevent injury to the Australian industry. Revised variable factors based upon 2019 should reflect higher normal values and non-injurious prices.

### III. Overview of Australian Paper Negotiations with Officeworks

The Officeworks Importer Questionnaire Response (“IQR”) confirms that Officeworks shifted sourcing of A4 copy paper in “late 2019.....from Australian Paper” to imports (i.e. [Supplier] China). This contract was for the supply of private label copy paper brands from 2020 and beyond. This is a significant loss of business equating to approximately XXXXX tonnes, or XX per cent of the total market. The impact of this decision by Officeworks is worth roughly \$XX Million in lost revenue to Australian Paper. Figure 2 below reflects the resumption of imports from China at the end of 2019.

**Figure 2 – A4 copy paper imports from China 2015 to 2019**



Australian Paper’s negotiation with Officeworks (“OW”) included discussions related to supply of both their private label brands (‘Keji’ & ‘J. Burrows’), as well as Australian Paper owned brand Reflex. Discussions commenced early in 2019 and pricing and delivery model was provided in March 2019, however discussion and further progress was slow after this point. Australian Paper considered that pricing provided to OW was at a level that was highly competitive with known imports at the time.

It was identified internally that Officeworks were likely to be investigating alternate supply options with overseas competitors as very little correspondence on Australian Paper’s offer occurred during this time despite Australian Paper revising its offering downwards in late March 2019.

In June 2019 Australian Paper advised OW that a decision was required by the end of July to manage stock production on either a stay or leave scenario. OW response to this request was to state they would provide three months’ notice.

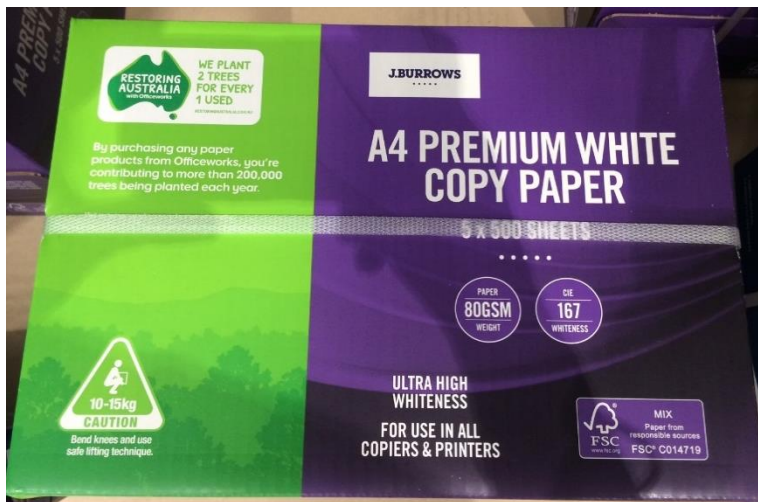
Final notification of the Officeworks decision to shift to an offshore supplier came in August 2019 with final forecast being provided by OW in September for the remainder of 2020. Australian Paper did lose the private label brands to [Supplier] China but was able to retain an agreement to continue to supply its market leading Reflex brand to Officeworks.

In January 2020 Australian Paper was made aware that Officeworks had moved supply of its private label brands Keji and J. Burrows to a Chinese producer – [Supplier and mill] which has interim dumping duties of 4 per cent. It is Australian Paper’s position that given the increase in raw material pulp costs since 2015, the purchase price at which Officeworks is buying approximately XXXXX tonnes of A4 copy paper from [Supplier] China are at dumped prices which undercut the Australian Industry.

Australian Paper submits for the Commission’s consideration the pricing proposals which were rejected by OW in favour of the dumped Chinese imports in *Confidential Attachment 1\_ Officeworks*

Pricing\_Meeting March 6.pdf and Confidential Attachment 2\_Officeworks Pricing\_March 20\_Reflex scenarios.pdf

Figure 3 – J Burrows Private Label A4 copy paper – made in China.



[Photograph of Keji branded product in pallet displaying Chinese supplier and mill]

#### IV. Officeworks Claims

Officeworks states that weight (gsm), whiteness and recycled content are quality attributes that are “key attributes” influencing purchasers’ decisions for the subject goods. Australian Paper notes that the Commission determined in Investigation 341 and 463 that these product characteristics were of secondary importance, and AP provides the below response to related OW claims.

- Australian Paper has provided the Commission with verified sales data which confirms that there is little price differentiation between recycled content of A4 copy paper in the Australian market. The data confirmed that whilst recycled content paper is more expensive to produce, Australian Paper cannot achieve a price premium for the product in the market as consumers generally consider recycled content as a 'nice to have' provided that it doesn't cost any more than the virgin alternative. Additionally, there is evidence of pervasive and irrational 'perception' that recycled content paper is somehow lower quality and therefore should not be priced higher, although this is not based in fact;
- Australian Paper produces mostly 80gsm copy paper as that is the only grammage that the Australian market has widely accepted since Australian Paper has supplied the market. Australian Paper has demonstrated to the Commission that past attempts to sell AP manufactured A4 copy paper brands at lower and higher gsm has been largely unsuccessful due to low uptake by the market. There is minimal cost benefit in producing lower gsm paper, as well as low market demand;
- Whiteness does not significantly impact pricing in the Australian market, and in most cases, end users cannot perceive the difference between 'whiter' paper and 'brighter' paper unless placed side by side. Even still, consumers often confuse a bright paper as being whiter than others simply due to the producer adding a hint of blue dye to the paper, i.e. with any level of 'whiteness' a copy paper producer can also change the 'shade' of whiteness. If it were a simple case that whiter or brighter paper could always demand a higher price in the Australian market, then Australian Paper would produce ONLY high whiteness paper and command a stunning price premium across all its grades. These assertions are somewhat fanciful and unrealistic as Australian customers and in particular Officeworks, demand a variety of price pointed brands including a 'good', 'better', and 'best' options i.e. currently these are Keji (China), J. Burrows (China), and Reflex (AP).

These factors, therefore, have little or no impact on A4 copy paper pricing, with the ultra-competitive market and import aligned price pointing of brands being the greatest factor determining market pricing.

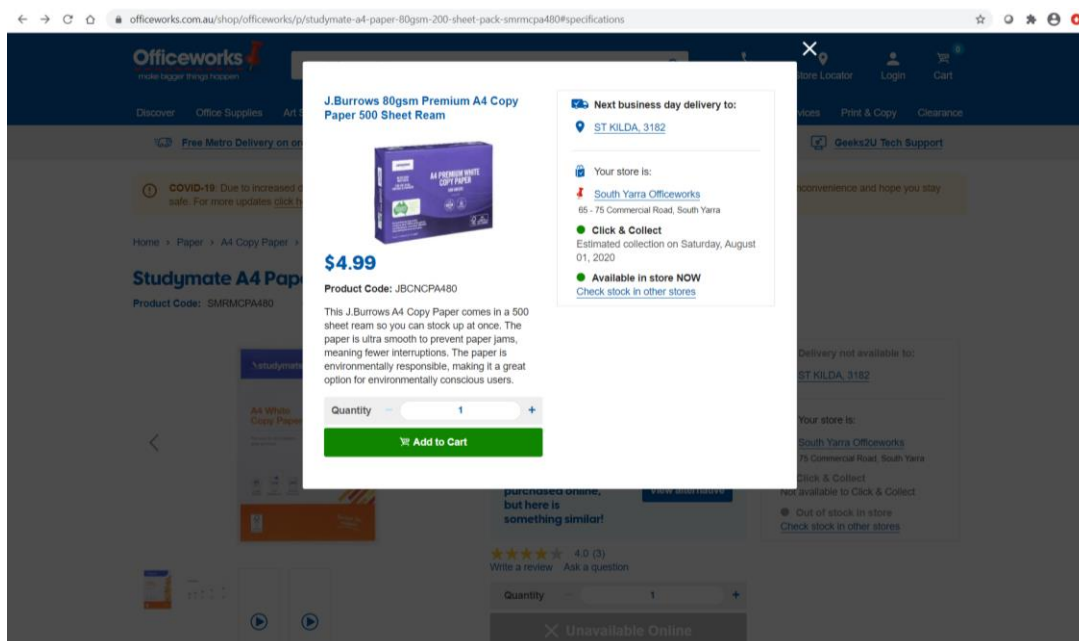
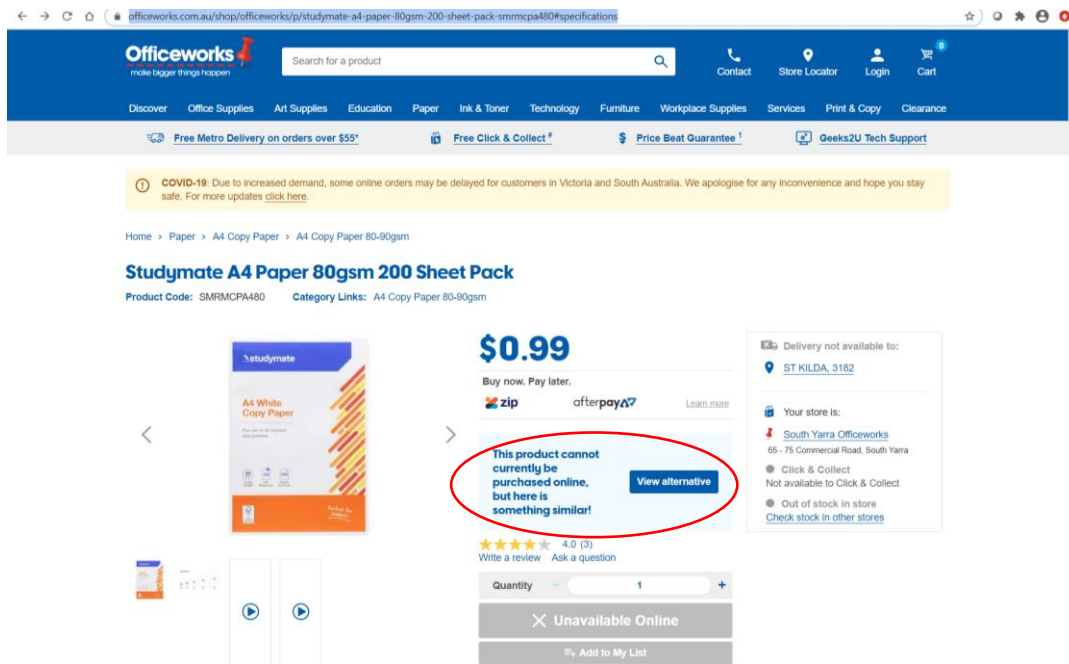
Officeworks' strategy of everyday lowest prices and "*the widest range at the lowest prices*" according to their IQR, along with their large market share (around XXXXX tonnes or XX per cent of the entire market) summarily confirms that they are price leaders in the Australian copy paper market. The OW IQR also states that they operate in multiple market segments, and not just retail. The relative ease with which Officeworks shifted from Australian Paper supply to Chinese supply in late 2019 despite the competitive pricing offered by Australian Paper confirms that the lower pricing offered by [Supplier] China was the principal reason for abandoning Australian Paper as a supplier.

Australian Paper further refutes OW's suggestion that secondary physical characteristics of the paper are a determining factor in supplier selection by way of submitting screen captures below from the OW website. Figure 4 displays an OW copy paper brand for sale called 'Studymate', of which OW states inventory is low due to COVID related supply interruptions. This particular product has a low whiteness of 153 CIE and only 200 sheets of paper per pack, and is considered a low priced generic product. Importantly, OW displays a button to "View alternative" which directs customers to their J. Burrows brand which has a higher whiteness of 167 CIE. Seemingly by OW's own admission, products which have varying secondary physical characteristics are directly substitutable from the perspective of the end user. There are multiple other examples of similar substitutions on the OW website, despite significant differences in the secondary physical characteristics of the paper.

At the Commission's request AP is also able to provide historic examples of OW substituting different CIE whiteness papers. In one instance, AP produced a XXX CIE whiteness copy paper for OWs [brand]; however, the OW [claims] stated that the product was XXX CIE whiteness, [related OW claims]. It is AP's firm belief that this is done by OW in order to justify the 'price-fighter' status of [brand] and justify the higher price of the [brand] product and other brands. This practice demonstrates that CIE whiteness and other secondary characteristics are effectively irrelevant in OW's pricing strategy and

that 'price points' are the main focus. It also reinforces the view that purchasing decisions in the Australian market are based almost exclusively on price.

**Figure 4 – Officeworks website – product substitution<sup>2</sup>**



<sup>2</sup> <https://www.officeworks.com.au/shop/officeworks/p/studymate-a4-paper-80gsm-200-sheet-pack-smrmcpa480>  
<https://www.officeworks.com.au/shop/officeworks/p/j-burrows-80gsm-premium-a4-copy-paper-500-sheet-ream-ibcncpa480>

## V. Jackaroo's assertions

Jackaroo claims that Australian Paper has a monopolist position in the market, as evidenced by the Commission during its investigations (341 and 463). Australian Paper rejects this assertion which is supported by the Commission's assessment in Review 547 which relates to the same period of analysis as this review of variable factors, whereby it is stated "*the Australian market is characterised by high levels of import penetration*"<sup>3</sup>. It is further indicated that:

*"Australian Paper is the sole producer of A4 copy paper in Australia and sets prices relative to imports. Data provided by Australian Paper indicates that the Australian market for A4 copy paper is price sensitive.<sup>4</sup> 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."<sup>5</sup>*

The Commission's comments contradict in the strongest terms Jackaroo's claims throughout its questionnaire response that Australian Paper somehow exerts market influence to its advantage, despite the fact that Australian Paper has demonstrated consistently the correlation between ongoing injury, and the dumped imports which undercut Australian Paper prices.

Jackaroo makes a further claim that Australian Paper does not have sufficient capacity to supply the Australian market, stating that the Australian market size is approximately 200,000 tonnes. In SEF 547 the Commission estimated that the Australian market was approximately 175,000 tonnes in 2019. Australian Paper's manufacturing capacity on its major copy paper producing machine (M5) is equivalent to approximately XXXXXX tonnes per annum, and in addition to this Australian Paper has the ability to produce copy paper on its M3 paper machine, with an additional capacity of a further a XXXXXX tonnes. The Commission has verified Australian Paper's Maryvale machine capacity through the conduct of multiple investigations and reviews.

Australian Paper also refutes Jackaroo's statement that it has misused the Anti-Dumping System for some unknown nefarious gain. This is in contradiction to the facts (confirming dumping, material injury and causal link) in each of Investigation 341 and 463, with Jackaroo appearing to also claim that the Commission has not conducted its investigations in a fair and independent manner. Australian Paper directs Jackaroo to the findings of Inv 341, 463 and preliminary findings of review 547 in respect of AP's position as a price taker in a highly price sensitive and competitive market.

Australian Paper has explained to the Commission the context surrounding its brief and temporary importation of a small volume of copy paper from South Africa, and the converting/packaging undertaken in Malaysia in 2019.<sup>6</sup> No further explanation is required. Relating to the claims by Jackaroo that Australia's imports and domestic sales of South African copy paper were in any way significant during the investigation period; AP submits the Figure 5 which confirms historic sales on the Maryvale converting line compared to the South African import sales, as well as inventory levels. It should be noted by the Commission that despite a temporary squeeze of Australian Paper inventory and the subsequent outsourcing of a small volume of supply, Australian Paper's inventory was never reduced to zero (and was around XXXX tonnes at its lowest point).

### **Figure 5 – Maryvale sales and inventory levels – January 2018 to June 2020**

[Confidential production sales and inventory information]

In Jackaroo's submission document number 14 on the review 551 EPR, it is claimed that Australian Paper's imports of South African produced copy paper in 2019 represented 5 per cent of the Australian

<sup>3</sup> SEF No. 547 Section D6.3.2.2 Australia, page 142.

<sup>4</sup> This was verified at the Australian industry visit by evidence of pricing negotiations and by a comparison of prices.

<sup>5</sup> SEF No. 547 Section 3.3.1.4 page 34.

<sup>6</sup> EPR document number 13.

market. Australian Paper has confirmed with verified data and exhaustive commentary that it imported only XXXX tonnes from South Africa in 2019, which would represent less than X per cent of the total Australian market for A4 copy paper. Jackaroo's claim of 5 per cent is therefore incorrect and not supported by the evidence. AP submits to the Commission *Confidential Attachment 3\_Mondi supply - AP damage claim.pdf* which confirms that the relevant volume is grossly overstated in the import statistics due to a large portion of the import supply being damaged, refunded and repatriated to South Africa as a result.

Jackaroo's claim that Australian Paper somehow enforces market uptake of 80gsm copy paper against the will of customers is unfounded and nonsensical. Australian Paper produces mostly 80gsm copy paper as that is the only grammage that the Australian market has widely accepted since Australian Paper commenced operations, and is the preferred weight on the Australian market. Australian Paper has demonstrated to the Commission that past attempts to produce and sell A4 copy paper brands at lower and higher gsm has been largely unsuccessful due to low uptake by the market. There is also minimal cost benefit in producing lower gsm paper, in addition to low market demand.

It is further asserted by Jackaroo that Australian paper has undercut its prices. This assertion is not supported by evidence provided by Jackaroo. Australian Paper does not consider that this claim can be established.

Further, Jackaroo's claim that Australian Paper has hidden imports from the Commission is a serious allegation that cannot be substantiated by Jackaroo.

## VI. Basis for non-injurious price

It is suggested by Jackaroo in the questionnaire and submission on the record that the unsuppressed selling price ("USP") should be based upon undumped import prices on the Australian market. Australian paper notes that the ADC observes a hierarchy in its preferred methodology for determining a USP (from which the non-injurious price is derived). In Investigation 463 the Commission determined a USP based upon the Australian industry's CTMS during the investigation period, plus an amount for profit (second preferred alternative). This methodology was preferred in Inv 463 as market selling prices unaffected by dumping were greater than five years old.

Australian Paper has demonstrated in this submission that pulp costs have increased by more than XX per cent following the investigation period in Investigation 341 and that AP has been unable to recover cost increases due to imports from the subject countries landing in Australia at selling prices reflecting the applicable variable factors determined for the 2015 year. For these reasons and, as imports from other countries not the subject of measures are of insufficient volumes to influence overall market selling prices, the Commission's preferred methodology of CTMS from the 2019 investigation period plus profit (adjusted for CPI) is the recommended methodology.

## VII. Conclusions

The claims made by Officeworks and Jackaroo in their respective IQR's are merely assertions not supported by reliable facts or evidence and should be disregarded by the Commission. Further, the matters raised do not impact the determination of each of the variable factors the subject of this review of measures investigation.

Australian Paper recommends that the Commission propose the USP for this review of variable factors investigation be based upon Australian Paper's CTMS for the 2019 investigation period plus an amount of profit selected from an earlier period unaffected by dumping adjusted for inflation.

If you have any questions concerning this submission please do not hesitate to contact me on 0425 619 667.



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Yours sincerely

A handwritten signature in black ink that reads "M Decarne". The signature is written in a cursive style.

Matt Decarne  
Trade Affairs Manager