



# Australian Industry Questionnaire

**Case number:** 551

**Product:** A4 copy paper

**From:** the Federative Republic of Brazil, the People's Republic of China, the Republic of Indonesia and the Kingdom of Thailand

**Review period:** 1 January 2019 to 31 December 2019

**Return completed questionnaire to:**  
investigations2@adcommission.gov.au

**Anti-Dumping Commission website:** [www.adcommission.gov.au](http://www.adcommission.gov.au)

## DECLARATION

I believe that the information contained in this response is complete and correct.

Signature: *MJ Decarne*

Name: Matt Decarne

Position: Trade Affairs Manager

Company: Paper Australia Pty Ltd

ABN: 49 082 475 438

Date: 4 May 2020

## AUTHORITY TO DEAL WITH REPRESENTATIVE

If you have appointed a representative to assist with your response, provide the following details and complete the declaration below.

I,

Name: Matt Decarne  
Position: Trade Affairs Manager  
Company: Paper Australia Pty Ltd

an interested party in respect of the review of measures (REV 551) of anti-dumping duties relevant to A4 copy paper have engaged the representative listed below.

Representative's name: John O'Connor  
Representative's position: Director  
Representative's company: John O'Connor and Associates Pty Ltd  
Representative's address: P.O. Box 329, Coorparoo Qld, 4151  
Representative's telephone: (07) 3342 1921  
Representative's facsimile: (07) 3342 1931  
Representative's email: [jmoconnor@optusnet.com.au](mailto:jmoconnor@optusnet.com.au)  
Representative's ABN: 3909 865 0241

for the purpose of this review.

I agreed that the Anti-Dumping Commission may liaise directly with my representative, including for the release of confidential information.

Signature: 

Date: 4 May 2020

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## GOODS SUBJECT TO ANTI-DUMPING MEASURES AND MODEL CONTROL CODES

The goods subject to anti-dumping measures (the goods) 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 (210 mm x 297 mm) (also commonly referred to as cut sheet paper, copy paper, office paper or laser paper).*

Further information on the subject goods specifies that 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 chemical-mechanical process and/or from recycled pulp.*

### Tariff Classification

The goods are currently classified to tariff subheadings 4802.56.10 (statistical code 03 and 09) of Schedule 3 to the *Customs Tariff Act 1995*.<sup>1</sup>

The goods are subject to zero per cent Customs duty rate.

### Model Control Code

Details of the model control code (MCC) structure for the goods are detailed in the table below. Domestic sales data (Section A-4) and Indonesian export sales data (Section E-1) and cost to make and sell data (Sections A6.1 and A6.2) submitted in this response must follow this MCC structure. At a minimum, the data must report sales and cost data separately for each of the mandatory MCC categories identified by the Commission.

Category	Sub-category	Identifier	Sales data	Cost data
Weight (grams per square meter (gsm))	70 gsm	70	Mandatory	Mandatory
	> 71 gsm to 80 gsm	80		
	> 81 gsm to 85 gsm	85		
	> 85 gsm to 90 gsm	90		
	> 91 gsm to 100 gsm	100		
Recycled content	100%	R100	Mandatory	Mandatory
	50% to 99%	R50		
	30% to 49%	R30		
	1% to 29%	R10		
	0%	N		

In constructing a MCC, use a "-" between each category. For example: 70-R100.

If there are models manufactured and sold by your company that do not align within the MCC structure above, this should be raised by lodging a submission with the Commission as soon as is practicable, but no later than the time this questionnaire is due, otherwise the response may be deemed deficient.

<sup>1</sup> This tariff classification and statistical code may include goods that are both subject and not subject to the anti-dumping measures. The listing of this tariff classification and statistical code is for convenience or reference only and does not form part of the goods description. Please refer to the goods description for authoritative detail regarding goods subject to the anti-dumping measures.

## SECTION A AUSTRALIAN INDUSTRY

### A-1 Identity and communication

Please nominate a person in your company for contact about the response:

Contact name:	Matt Decarne
Company and position:	Paper Australia Pty Ltd – Trade Affairs Manager
Address:	307 Ferntree Gully Rd, Mt Waverley VIC 3149
Telephone:	+61 425 619 677
E-mail address:	matt.decarne@australianpaper.com
ABN:	49 082 475 438

#### Alternative contact

Name:	Adrian Berton
Position in company:	General Manager AP Manufacturing
Address:	307 Ferntree Gully Rd, Mt Waverley VIC 3149
Telephone:	(03) 5136 0200
Facsimile:	(03) 5134 6127
E-mail address:	Adrian.Berton@australianpaper.com.au

If you have appointed a representative to assist with your response, complete the declaration on page 3.

## A-2 Company information

- 1. State the legal name of your business and its type (e.g. company, partnership, sole trader, joint venture). Please provide details of any other business names you use to manufacture/produce/sell the goods that are the subject of the review.**

The name of the applicant company requesting the anti-dumping measures is as follows:

Paper Australia Pty Ltd (ACN 061 583 533)  
307 Ferntree Gully Road,  
Mt. Waverley VIC 3149

Australian Paper Pty. Ltd. (ACN 082 475 438) is a wholly owned subsidiary company of Paper Australia Pty Ltd and is effectively dormant. The name 'Australian Paper' (abbreviated 'AP') is used as a business or trading name for Paper Australia Pty Ltd and is the usual way in which Paper Australia Pty Ltd is referred to in common use.

Exports of the goods (other than to New Zealand) are generally undertaken by 'Paper Products Marketing' (abbreviated 'PPM'), a collection of 5 subsidiary companies of Paper Australia Pty Ltd which trades in paper worldwide.

Throughout this application, 'Australian Paper' or 'AP' will refer to Paper Australia Pty Ltd, which includes Australian Paper and the 5 subsidiary companies that make up PPM.

- 2. Provide your company's internal organisation chart. Describe the functions performed by each group within the organisation.**

Please find attached (Confidential Attachment A-2.2) Australian Paper's internal organisation chart.

Key functions that include:

- 'Office', which manufactures, imports and sells envelopes & stationery and sells Australian Paper's cut sheet paper as well as a very small volume of imported cut sheet paper in Australia and New Zealand;
- 'Printing Papers', which sells Australian Papers printing and converting papers in Australia and New Zealand. Australian Paper's small specialty paper mill, Shoalhaven, reports to this business;
- 'Packaging', which sells Australian Paper's packaging and industrial papers;
- 'Maryvale mill' which manufactures Australian Paper's high volume papers including cut sheet paper, printing & converting papers and packaging & industrial papers; and
- 'Paper Products Marketing' (PPM) undertakes the overseas sales & export (except to NZ) of Australian Paper's products including cut sheet paper and also trades papers manufactured by other companies internationally.

- 3. List the major shareholders of your company. Provide the shareholding percentages for joint owners and/or major shareholders.**

Paper Australia Pty Ltd is a wholly owned subsidiary of Nippon Paper Industries Co. Ltd ('NPI') registered in Japan (Prior to 1 April 2013 Nippon Paper Group Inc.).

<https://www.nipponpapergroup.com/english/>

- 4. If your company is a subsidiary of another company, list the major shareholders of that company.**

Paper Australia Pty Ltd is a wholly owned subsidiary of Nippon Paper Industries Co Ltd.

Note that the Parent Company name changed from Nippon Paper Group to Nippon Paper Industries on 1 April 2013.

## PUBLIC FILE

No individual shareholders of Nippon Paper Industries Co. Ltd had greater than 10% of shares as of April 1 2014.

**5. If your parent company is a subsidiary of another company, list the major shareholders of that company.**

Not Applicable

**6. Provide an outline diagram showing major associated or affiliated companies and your company's place within that structure (include the ABNs of each company).**

Confidential Attachment A-2.6 includes a diagram of the associated or affiliated companies.

If further information on the companies associated or affiliated with Nippon Paper Industries Co. Ltd is required, this is available from their website at:

<http://www.nipponpapergroup.com/english/about/group/>

**7. Are any management fees/corporate allocations charged to your company by your parent or related company? If yes, provide details.**

There are no management fees/corporate allocations charged to Australian Paper by its parent or related company. Australian Paper does, however, cover the majority of salaries and costs associated with ex-pat employees from the parent company working in its business and also technical fees on a usage basis.

**8. Identify and provide details of any relationship you have with an exporter to Australia or Australian importer of the goods.**

Australian Paper and its subsidiaries and associated companies are not exporters of the goods to Australia. Some significant importers of the goods and customers of the importers are also customers of Australian Paper.

Australian Paper imports a small volume of cut sheet paper as a compliment to its range where demand does not justify local production. These volumes are included in 'A5 Sales of other production' included with the financial appendices.

**9. Provide a copy of all annual reports applicable to the data supplied in worksheet named "A3 Sales turnover". Any relevant brochures or pamphlets on your business activities should also be supplied.**

Australian Paper changed from a July-June financial Year to a January-December financial year in 2009, with a half-year report July-December 2009 being produced, then annual reports for calendar years 2010-2012. A copy of the 2018 (audited) and 2019 (unaudited) annual report is included at Confidential Attachment A-2.9.1 and Confidential Attachment A-2.9.2 respectively.

Additional information on Australian Paper is available from the following website:

<https://www.australianpaper.com.au/>

**10. Provide details of any relevant industry association.**

Australian Paper is a member of the following Industry Association:

Australian Forest Products Association  
PO BOX 239 Deakin West  
ACT 2600  
Phone: (02) 6285 3833  
Facsimile: (02) 6285 3855  
[enquiries@ausfpa.com.au](mailto:enquiries@ausfpa.com.au)

### A-3 The imported and locally produced goods

1. Fully describe your product(s) that are 'like' to the imported product:
  - Include physical, technical or other properties.
  - List this information for each model in the range.
  - Supply technical documentation where appropriate.
  - Indicate which of your product types or models are comparable to each of the imported product types or models. If appropriate, the comparison can be done in a table.

The imported products the subject of this questionnaire response 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).*

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.

#### Model Control Codes

Australian Paper has made a separate submission to the Commission in relation to the Model Control Codes (MCC) AP considers are appropriated, dated 21 April 2020.

Australian Paper considers that the relevant models of the like goods should be limited to those listed in table 1 below, and as such AP has presented all of its Financial Appendices on this basis.

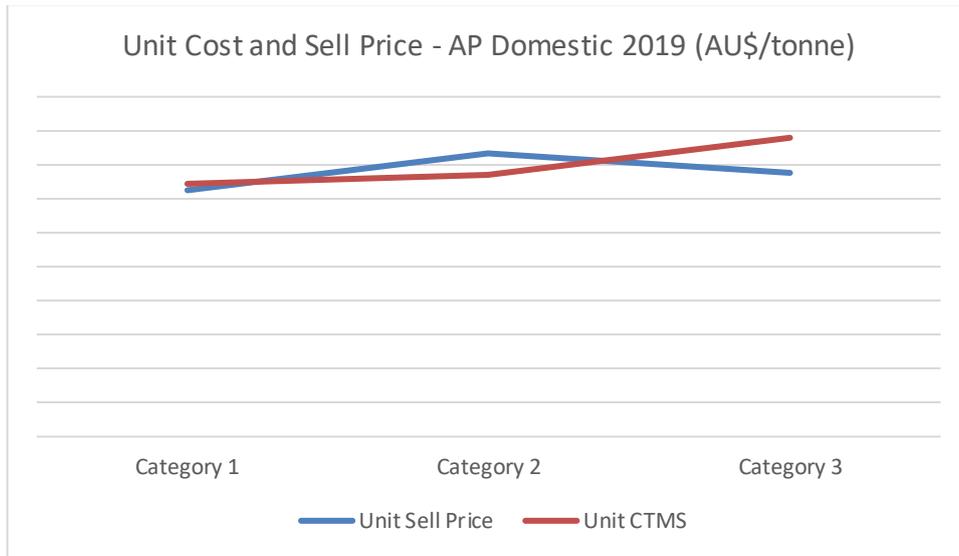
Table 1.

Category	Recycled Content
1	0 – 20%
2	21 – 79%
3	80 – 100%

#### Recycled Content

As part of Australian Paper's application for review of measures which was initiated on 16 April (Review 551), AP submitted financial appendices which confirmed that there is minimal material difference in the selling price of 70 – 100gsm A4 copy paper in the Australian market based on recycled content. Graph 1 summarises the unit sell price for 2019 submitted in Appendix A6.1 for each category.

Graph 1. Unit selling price v CTMS



Although Category 3 is generally more expensive to produce, the high recycled products do not command a higher price in the domestic market proportional to the higher cost to produce. In fact, the lower recycled content Category 2 (21-79%), is sold at a higher selling price domestically than both the virgin and high recycled grades. This is likely due to the fact that AP's 50% recycled grades are heavily promoted in the domestic market and as such the single largest factor determining prices in the Australian A4 copy paper market is brand, as opposed to recycled content or grammage (GSM).

Given that there is limited and, in most cases, negligible connection between recycled content of A4 copy paper and the selling price, AP considers that it is unreasonable for the Anti-Dumping Commission ("the Commission") to consider specificity beyond the abovementioned three categories. AP contends that the only factor which could possibly give rise to the need for separate models to be considered would include the de-inked pulp (DIP) being that recycled uncoated woodfree paper is more expensive to produce than virgin pulp.

### GSM

Australian Paper remains steadfast in its opinion that grammage or the GSM of the paper has not historically driven price differentiation. It has been AP's experience that GSM is not a purchasing decision by the consumer and is immaterial in regards to both the cost to produce and the selling price of the paper, given that all copy paper sold within the 70 – 100gsm range competes directly in the same market. It is also correct that the vast majority of the A4 copy paper sold in Australia is 80gsm, and as such Australian Paper only produces 80gsm copy paper which competes with all imported like goods regardless of the GSM.

It should be noted that lower gsm can decrease paper machine efficiency and it is AP's experience that there is no significant cost advantage to the manufacturer in reducing the gsm of copy paper grades. As such AP considers that the main reason for importers to source lower gsm A4 copy paper is to justify undercutting the pricing of domestic producers.

Typically, when a paper machine decreases the gsm of the paper it is producing there are a few possible outcomes;

On some paper machines (depending on how they are set up), the speed of the machine increases proportionally to the decrease in gsm of the paper, i.e. the net production rate of the paper machine is unchanged and therefore there is little if any cost advantage.

Alternatively, on other machines there is little or no increase in the speed of the machine, which means that the net production rate per tonne has decreased and costs have therefore increased.

In addition to either of the above scenarios, a likely result of down-grammage of the paper is an increased risk of paper sheet breaks due to the lower gsm sheet having less strength than higher gsm paper. This causes a short period of downtime for the machine as operators work to reconnect the sheet more often, reducing the machine efficiency and increasing cost per tonne.

Finally, introducing a new lower grammage paper to the production mix increases complexity in the process which again negatively impacts machine efficiency. As the paper machine changes between paper weights, there is a short period where out of spec paper is being produced and this must go back for repulping. These reels are referred to as 'broke' or 'BTM' (Back to machine), and increase the net cost to make paper.

Overall there is unlikely to be any cost benefit to the manufacturer in producing lower gsm paper, and it is clear to AP that the paper imported at less than 80 gsm simply seeks to avoid the intended effect of the anti-dumping measures and undercut the selling prices of AP's A4 copy paper.

### **Investigation No. 341**

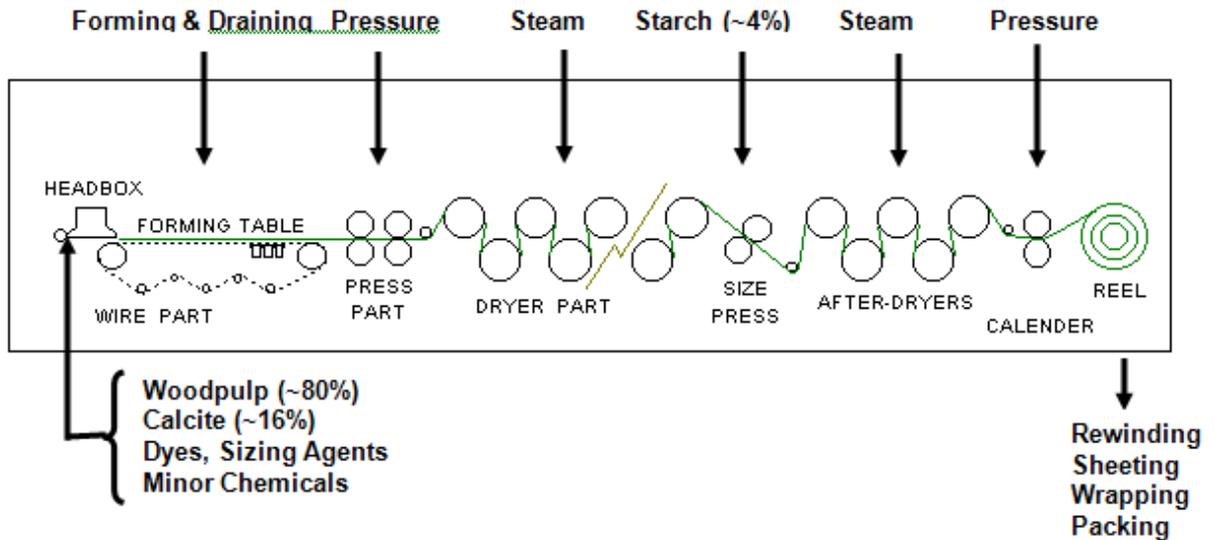
The Commission considered whether the Australian industry manufactures like goods to the imported goods in Investigation No. 341 (and again in Investigation 463). The Commission stated in Report No. 341:

*"The Commission considers that other characteristics of the goods, such as packaging, certification, grams per square metre, 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".*

Australian Paper submits that there have been no changes to the goods or, in the production of the goods manufactured by the Australian industry, in the period subsequent to the commencement of Investigation No. 341 and the following Investigation 463. Australian Paper therefore continues to maintain the view (as previously supported by the Commission) that the imported goods possess the same essential characteristics as locally produced cut sheet paper. Australian Paper further submits that whilst recycled content does impact the cost to produce A4 copy paper it does not achieve a selling price premium reflecting this additional cost. Model control codes as depicted above are again appropriate for this investigation and anything beyond the aforementioned 3 category definitions are not required or relevant. Finally Australian Paper submits that there is little cost benefit or differential in production of lower gsm A4 copy paper and the standard 80gsm. AP contends that any sell price differential is simply a result of importers positioning the lower gsm products at a price point which undercuts the domestic industry.

## **2. Provide a summary and a diagram of your production process.**

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, located at 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 some overseas mills, 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.

Note that other uncoated woodfree papers (not cut sheet paper and therefore not like goods) to be sold in rolls or large 'folio' sheets undergo the same process on the same equipment to the point of rewinding the jumbo reels, but is then 'finished' differently as rolls or sheets for use in the customers' manufacturing processes such as printing or paper stationery manufacture.

**3. If your product is manufactured from both Australian and imported inputs:**

- describe the use of the imported inputs; and
- identify that at least one substantial process of manufacture occurs in Australia (for example, by reference to the value added, complexity of process, or investment in capital).

A4 copy paper manufactured by Australian Paper is made from locally sourced timber and imported pulp to produce pulp from which paper is produced. The pulp and paper-making processes are both considered to be substantial processes of manufacture.

## **A-4 The Australian market**

*Note: Further questions are contained in section C of this questionnaire which relate to the Australian market.*

- 1. Complete the worksheet named “A1 Australian production”.**
  - You must provide this information in electronic format using the template provided.**
  - If you have used formulas to complete this worksheet, these formulas must be retained.**

Confidential Attachment\_Appendix A1 A2 A3 2019

- 2. Complete the worksheet named “A2 Australian market”.**
  - You must provide this information in electronic format using the template provided.**
  - If you have used formulas to complete this worksheet, these formulas must be retained.**

Confidential Attachment\_Appendix A1 A2 A3 2019

## **A-5 Company sales in Australia**

- 1. Complete the worksheet named “A3 Sales turnover”.**
  - You must provide this information in electronic format using the template provided.**
  - If you have used formulas to complete this worksheet, these formulas must be retained.**

Confidential Attachment\_Appendix A1 A2 A3 2019

- 2. Complete the worksheet named “A4 Domestic sales”.**
  - You must provide this information in electronic format using the template provided.**
  - If you have used formulas to complete this worksheet, these formulas must be retained.**

Confidential Attachment\_Appendix A4 2019 Jan - Dec KE24 Base 4900 copy data

- 3. If any of the customers listed in the “A4 Domestic sales” worksheet are associated with your business, provide details of the association. Describe the price effect of the association.**

All sales are to unrelated parties. This question is therefore not applicable.

- 4. Complete the worksheet named “A5 Sales of Other production” if you have made any:**
  - internal transfers; or**
  - domestic sales of like goods that you have not produced, for example, if you have imported the product or on-sold purchases from another Australian manufacturer.**
  - If you have used formulas to complete this worksheet, these formulas must be retained.**

Confidential Attachment\_Appendix A5 Sales Other Prod 2019

- 5. Attach a copy of distributor or agency agreements/contracts.**

Each distributor agreement is individually negotiated.

Confidential Attachment A-5.5 is a typical distributor agreement.

**6. Provide copies of any price lists.<sup>2</sup>**

Representative price lists covering some of Australian Paper's office papers to various sizes of distributor are contained in Confidential Attachment A-5.6 as follows:

- Confidential Attachment A-5.6.1 – Large Stationery Retailer price list
- Confidential Attachment A-5.6.2 – Buying Group price list
- Confidential Attachment A-5.6.3 – Independent Dealers price list

In practice the pricing structure, including quantity discounts and rebates are negotiated individually with each distributor, resulting in several hundred individual price lists.

**7. If any price reductions (for example, commissions, discounts, rebates, allowances and credit notes) have been made on your Australian sales of like goods provide a description and explain the terms and conditions that must be met by the customer to qualify.**

- **Where the reduction is not identified on the sales invoice, explain how you calculated the amounts shown in the "A4 Domestic sales" worksheet.**
- **If you have issued credit notes (directly or indirectly) provide details if the credited amount has not been reported in the "A4 Domestic sales" worksheet as a discount or rebate.**

Following the purchase of Paper Australia Pty Ltd by Nippon Paper in mid-2009, distributor agreements and pricing structures have been individually negotiated, with most based on net prices.

Where a structure involving discounts and rebates still remains in place, Confidential Attachment A-5.7 explains the underlying principles of the discount & rebate system.

Price reductions are often delivered as rebates paid 'off-invoice' and also as off-invoice 'contributions to marketing' or similar, frequently totalling as much as 10% or more of the headline invoice price and import declaration. These are rarely directly connected with invoices and may be paid at the end of the year as lump contribution.

**9. Select two domestic sales in each quarter of the data supplied in the "A4 Domestic sales" worksheet. Provide a complete set of commercial documentation for these sales. Include, for example, purchase order, order acceptance, commercial invoice, discounts or rebates applicable, credit/debit notes, long or short term contract of sale, inland freight contract, and bank documentation showing proof of payment.**

Unfortunately due to ongoing challenges presented by the COVID-19 restrictions and working from home arrangements, as well as a transfer of AP's IT systems which is currently underway, AP is not able to provide this information at this time. However AP agrees to submit this in full as part of the industry verification.

## **A-6 General accounting/administration information**

**1. Specify your accounting period.**

January 1 to December 31

Note that Paper Australia Pty. Ltd. changed from a July-June financial Year to a January-December (calendar year) financial year in July 2009.

**2. Provide details of the address(es) where your financial records are held.**

General Financial Records, Sales Records;

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<sup>2</sup> A similar question is asked in Section C of this questionnaire. To avoid duplication, please reference primary response.

## PUBLIC FILE

Australian Paper  
307 Ferntree Gully Road,  
Mt. Waverley VIC 3149

Production and Production Cost Records;

Australian Paper  
Maryvale Mill,  
Morwell VIC 3840

**3. Please provide the following financial documents for the two most recently completed financial years plus any subsequent statements:**

- **chart of accounts;**

Australian Paper's chart of accounts is included at Confidential Attachment A-6.3

- **audited consolidated and unconsolidated financial statements (including all footnotes and the auditor's opinion);**

Annual Reports for 2019 containing audited financial statements with footnotes and auditors opinion are provided as Confidential Attachment A-2.9.2

- **internal financial statements, income statements (profit and loss reports), or management accounts, that are prepared and maintained in the normal course of business for the goods.**

*These documents should relate to:*

1. **the division or section/s of your business responsible for the production and sale of the goods covered by the review, and**
2. **the company overall.**

Australian Paper's group narrative documents contain this information and will be supplied to the Commission as part of the verification process.

**4. If your accounts are not audited, provide the unaudited financial statements for the two most recently completed financial years, together with your taxation returns. Any subsequent monthly, quarterly or half yearly statements should also be provided.**

Unaudited accounts for 2019 are included at Confidential Attachment A-2.9.2.

Audited yearly statement for 2018 is included as Confidential Attachment A-2.9.1.

**5. If your accounting practices, or aspects of your practices, differ from Australian generally accepted accounting principles, provide details.**

Not Applicable

**6. Describe your accounting methodology, where applicable, for:**

- **The recognition/timing of income, and the impact of discounts, rebates, sales returns, warranty claims and intercompany transfers;**

Accrual Method

- **provisions for bad or doubtful debts;**

Provision for doubtful debts are based on the age profile of the debt and whether it is insured against non-payment. A provision for bad or doubtful debts is made at approximately 1.7% of debtors.

## PUBLIC FILE

- **the accounting treatment of general expenses and/or interest and the extent to which these are allocated to the cost of goods;**

Head Office selling expenses and interest are not allocated to cost of goods. Mill overheads are allocated as described below.

- **costing methods (e.g. by tonnes, units, revenue, activity, direct costs etc.) and allocation of costs shared with other goods or processes;**

Mill overheads are allocated to cost of goods by tonnes. Other costs shared with other processes are allocated by the most appropriate method in each case. These are explained in annotations to Confidential Appendix A6.

- **the method of valuation for inventories of raw material, work-in-process, and finished goods (e.g. FIFO, weighted average cost);**

- |                   |                  |
|-------------------|------------------|
| • Raw Material    | Weighted Average |
| • Work in process | Standard Cost    |
| • Finished Goods  | Standard Cost    |

- **valuation methods for scrap, by-products, or joint products;**

Scrap produced in the papermaking process (also referred to as 'broke') is returned to the papermaking process for reuse. It is valued at the cost of its pulp content. There are no by-products or joint products

- **valuation methods for damaged or sub-standard goods generated at the various stages of production;**

Damaged or substandard goods are generally returned to the process for reuse and are treated as for scrap above.

- **valuation and revaluation of fixed assets;**

Assets are valued at original cost with impairments of some assets prior to the purchase of Paper Australia Pty. Ltd. by Nippon Paper in June 2009. There have been no subsequent revaluations.

- **average useful life for each class of production equipment, the depreciation method and depreciation rate used for each;**

Useful life of major pulp and paper production equipment is in excess of 25 years. Depreciation is straight line at 4% pa. Converting equipment, which has a shorter operating life, is depreciated at 10% pa.

- **treatment of foreign exchange gains and losses arising from transactions and from the translation of balance sheet items; and**

Australian Paper has a policy of hedging a minimum of 75% of known net foreign currency exposures and has discretion to hedge up to 100% of known net foreign currency exposures. FX gains and losses occur due to under-hedging (75%), transaction timing and the shape of the forward FX curve. These gains and losses are booked as such in the financial accounts.

Net investments in the USA are hedged using USD borrowings. FX movements are accounted for in the balance sheet only.

- **restructuring costs, costs of plant closure, expenses for idle equipment and/or plant shut-downs.**

There have been no restructuring costs incurred in 2019.

- 7. If the accounting methods used by your company have changed over the period covered by the review provide an explanation of the changes, the date of change, and the reasons.**

There have been no changes of significance since the purchase of Paper Australia Pty. Ltd. by Nippon Paper in mid-2009.

## **A-7 Cost information**

- 1. Complete the cost to make and sell (CTMS) worksheets named “A6.1 CTMS domestic” and “A6.2 CTMS export” for domestic and export sales.**

Australian Paper has completed Confidential Appendices A6.1 and A6.2 and included in the questionnaire response, see Confidential Attachment\_Appendix A6-1 Domestic 2019 and Confidential Attachment\_Appendix A6-2 Export 2019 respectively.

## **A-8 Upwards sales and costs reconciliation**

- 1. Complete the upwards sales and costs reconciliation worksheets named “B1 Upward sales” and “B2 Upward costs”.**

Australian paper has been unable to complete upward sales and cost verification sheets, due to limited access to required systems and personnel as a result from transition to working from home arrangements as a result of the ongoing COVID-19 pandemic situation. AP will provide detailed costs and sales verification due the verification visit or sooner if this can be arranged.

## **A-9 Other factors**

- 1. Complete the worksheet named “A7 Other injury factors”.**

Confidential Attachment\_Appendix A7 Other Injury 2019

## SECTION B

### MARKET SITUATION & PROPER COMPARISON

Section 269TAC(1) of the *Customs Act 1901* (Cth) (the Act) provides that, subject to this section, the normal value of any goods exported to Australia is the price paid or payable for like goods sold in the ordinary course of trade for home consumption in the country of export in sales that are arms length transactions by the exporter or, if like goods are not so sold by the exporter, by other sellers of like goods.

In addition, section 269TAC(2)(a)(ii) of the Act provides that, subject to this section, where the Minister is satisfied that because of the situation in the market of the country of export is such that sales in that market are not suitable for use in determining a price under subsection (1), the normal value of the goods exported to Australia cannot be ascertained under subsection (1).

#### B-1 Market situation

In the original investigation, the Commissioner made findings in relation to a situation in the market (market situation) affecting the Indonesian exporters' domestic prices of A4 copy paper. Following the Commissioner's recommendation, the then Parliamentary Secretary<sup>3</sup> accepted, among other things that:

- programs and policies of the Government of Indonesia and the export ban on logs increased the supply of logs in Indonesia and thereby lowered the cost and price of logs and hardwood pulp;<sup>4</sup>
- the lowered cost and price of logs and hardwood pulp in Indonesia induced and allowed Indonesian A4 copy paper producers (also integrated A4 copy paper producers with their own upstream pulp facilities)<sup>5</sup> to supply more A4 copy paper at each possible price point than they otherwise would have; and
- the resultant price of A4 copy paper in Indonesia was artificially low, significantly below regional benchmarks and reflected the lowered cost and price of logs and hardwood pulp in Indonesia that resulted from the programs and policies of the Government of Indonesia.<sup>6</sup>

For a full description of the Commissioner's findings, please refer to Appendix 2 of *Anti-Dumping Commission Report No. 341* (REP 341).

As part of its Review, the Commission will be consider if a market situation exists in the Indonesian A4 copy paper market during the review period.

#### 1. Provide any information, including any evidence, you may wish to submit in relation to whether this market situation has changed during the review period.

##### I. Report 341 – Market situation finding on Indonesian A4 copy paper

In Report 341, the Commission determined that a particular market situation existed for A4 copy paper sold on the domestic market in Indonesia. The Commission concluded<sup>7</sup>:

*“The GOI exerts significant influence over the Indonesian timber and pulp industries through various programs and policies including those relating to the provision of land for plantations and export ban on logs. The Commission considers that these programs and policies have rendered Indonesian domestic A4 copy paper prices unsuitable for determining normal values.”*

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<sup>3</sup> Parliamentary Secretary to the Minister for Industry, Innovation and Science and the Assistant Minister for Industry, Innovation and Science, to the Minister for Industry, Innovation and Science.

<sup>4</sup> Report 341, Appendix 2, p. 166, 168, 170, 172, 183.

<sup>5</sup> Report 341, Appendix 2, p. 167, 168, 173 (footnote omitted), 174.

<sup>6</sup> Report 341, Appendix 2, p. 153, 167, 173-174.

<sup>7</sup> Report 341, Appendix 2, P 146.

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Section A2.4 of Report 341 detailed the Framework for assessing market situation claims. Subsection 269TAC(2) provides the circumstances where the normal value of goods cannot be ascertained in accordance with subsection 269TAC(1) *“because the situation in the market of the country of export is such that sales in that market are not suitable for use in determining a price under subsection 269TAC(1).”*

Factors that may exist that may make selling prices under subsection 269TAC(1) unsuitable for normal value purposes include:

- whether the prices are artificially low; or
- whether there are other conditions in the market that render the selling prices not suitable.

The Commission’s Dumping and Subsidy manual provides some guidance in this area and highlights that government influence on prices or input costs could be one cause of artificially low pricing. The manual provides further guidance including in *“assessing whether a market situation exists due to government influence, the Commission will assess whether the government involvement in the domestic market has materially distorted market conditions. If market conditions have been materially distorted then domestic prices may be artificially low or not substantially the same as they would be in a competitive market.”*

At Section A2.7.1 of Report 341, the Commission outlined its approach to examining whether a market situation exists by assessing the key raw material input of the goods for A4 copy paper. The key raw material consumed in the production of copy paper is wood pulp. The Commission therefore examined the pulp market in Indonesia to test if distortions influenced the selling prices for pulp.

The Commission assessed Bleached Hardwood Kraft (BHK) as the primary type of pulp used in Indonesia. The Commission further established that BHK pulp can be produced from either eucalyptus or acacia wood fibre.

Additionally, the Commission examined the effect of GOI policies and programs on the Indonesian A4 copy market. It found a number of *“recent GOI publications and policy initiatives support the Commission’s conclusion that the GOI provides ongoing support for the Indonesian pulp industry. These include:*

- *The National Industry Development Master Plan 2015-2035 designates the pulp and paper industry as a priority industry;*
- *Indonesia’s Forestry Long Term Development Plan 2006-2025;*
- *imposing export bans on logs;*
- *reversing the ban on natural forest timber for pulp manufacturing;*
- *providing seven million hectares of natural forest concessions to assist the pulp and paper sector; and*
- *issuing permits to allow the use of timber waste for pulp.”*

The Commission considered that the Long-Term Plan and Master Plan provides “Guidance and a framework” from which other policies and programs operate to actively support Indonesia’s forestry industries (including pulp production).

Specific programs identified by the Commission that it considers supports the Indonesian pulp industry involved the restrictions on exports of wood logs. The Commission considers that the export ban on logs imposed by the GOI distorts the domestic supply of timber. The Commission identified that on average log costs accounted for approximately 25 per cent of the cost of finished paper. The Commission identified that export bans on logs were introduced by the GOI in the 1980s and then again in 1990s.

The GOI imposed the export bans on logs 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.

The Commission’s analysis of the GOI plans and policies focused on the impact of the log ban on the supply of plantation timber (the primary source of timber used in pulp production). The Commission concluded that *“the net impact of the export ban on Indonesian logs would be reduced prices.”* However, the Commission was not satisfied that a comparison of log prices in Indonesia with other regional Asian log prices would highlight a pricing difference.

In examining the impact on Indonesian A4 copy paper prices, the Commission established that prices for Indonesian A4 copy paper (70-80 gsm) was in the range USD 800 and USD 880 per tonne during the investigation period compared with USD 900 and USD 965 per tonne for Asia region benchmarks. The Commission considered that *“the distortion of the domestic price for A4 copy paper [in Indonesia] directly results from GOI involvement in the forestry and pulp industries through its support for development of timber plantations and prohibition on exporting of timber logs.”*

The Commission concluded that the GOI plans and policies (including the export log ban) *“increased the availability of timber relative to demand and hence artificially lowering prices for Indonesian logs and pulp. The Commission considers that without these interventions, the price for timber and pulp would be above prices that prevailed during the investigation period and that these higher input costs would be reflected in higher domestic prices for A4 copy paper.”*

AP submits that the plans and policies (including the export ban on logs) that the Commission identified were in existence in the 2015 investigation period have continued and apply equally in 2019.

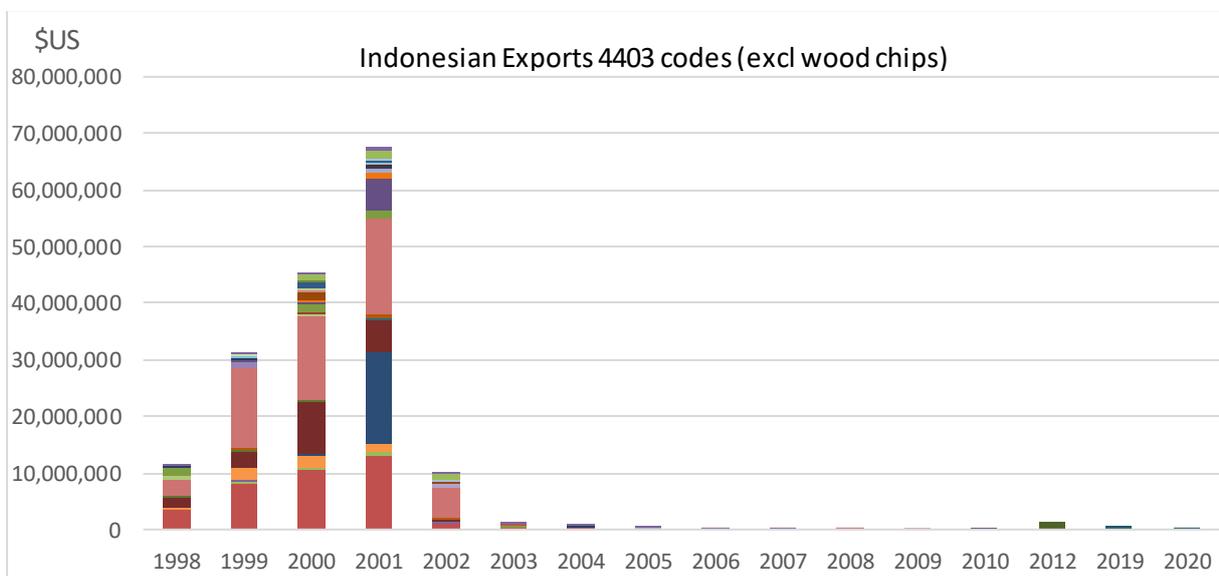
II. Export log ban

The Joint Decree of the Ministry of the Minister of Forestry No. 1132/KPTS-II/2001 and Minister of Industry and Trade No. 292/MPP/Kep/10/2001 dated 8 October 2001 that discontinued the export of logs/chip raw materials continues to apply in 2019.

The GOI contended that the ban on export of logs did not extend to pulpwood logs used in the production of pulp and paper in Indonesia. The Commission detailed at Section A2.9.6.3 that it was not satisfied that the GOI’s export ban did not extend to pulpwood logs. However, the Commission was satisfied that MOT Decree 44/2012 (refer Invest 341, EPR Document 210) did not exclude pulpwood from the coverage of goods the subject of the export ban.

AP has obtained updated information on log exports from Indonesia. The updated information (which includes 2019) confirms that the export ban on logs continues to have an effect and has limited exports of logs classified to heading 4403 of the Harmonised Tariff.

**Figure 1 – Indonesian Log Exports – Tariff Heading 4403**



Source: TradeData International – refer Confidential Attachment B-1.1

III. Particular Market Situation - 2019

AP does not consider that the GOI has altered its plans and policies for the Forestry and Paper industries over the intervening period following from the 2015 investigation period.

It is evident that the Master Plan for the Pulp and Paper Industry 2015-2025 and the Indonesia's Forestry Long Term Development Plan 2006-2025 continue to operate to the benefit of Indonesia's Forestry and Pulp and Paper industries.

The export ban and logs and woodchips (imposed by the Decree of 2001 and further detailed in the 2012 Decree) also continue to restrict exports of these key raw materials consumed by the pulp and paper industry.

AP submits that the Commission's finding concerning a particular market situation for A4 copy paper in Indonesia as outlined in Report 341 is as applicable in 2019 as it was confirmed by the Commission as applicable in 2015.

## SECTION C

### PROPER COMPARISON – AUSTRALIAN A4 COPY PAPER MARKET

In responding to the questions in section C please respond to these questions in relation to the review period (1 January 2019 to 31 December 2019).

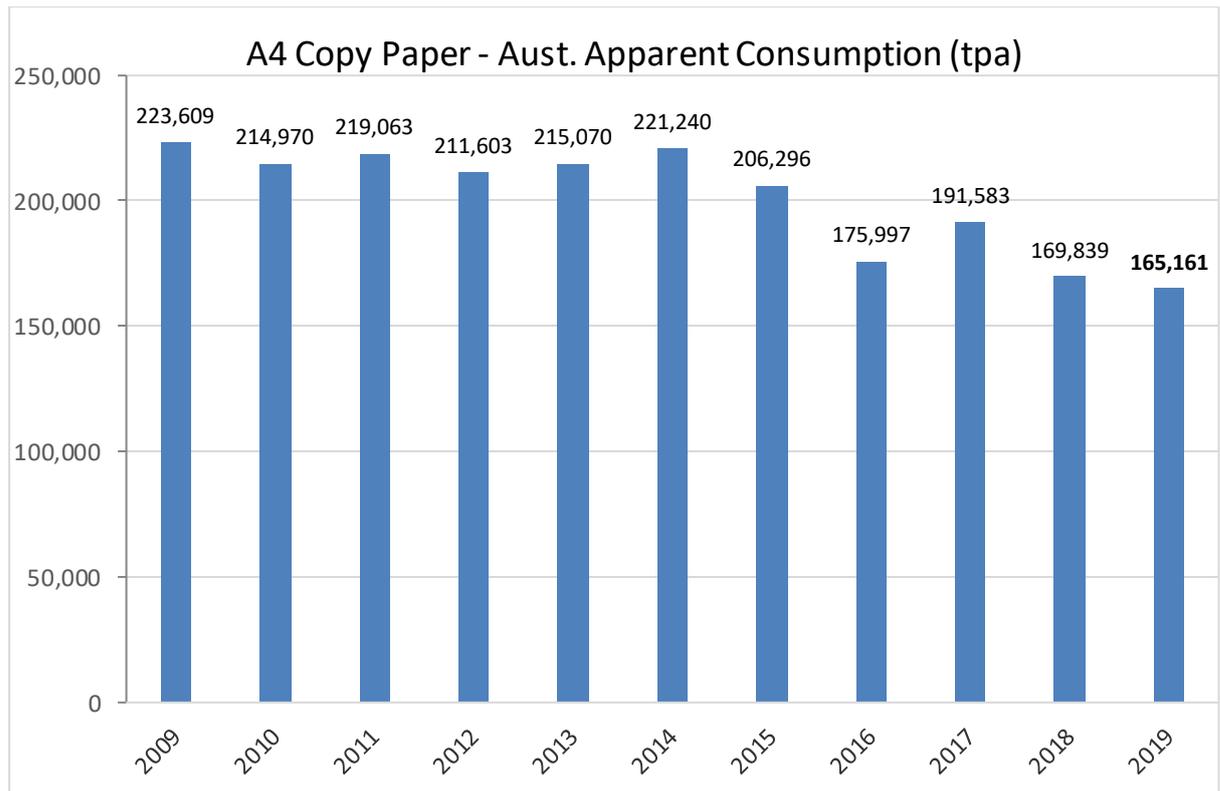
#### **C-1 Prevailing conditions of competition in the Australian market**

##### **1. Describe the Australian market for A4 copy paper and the prevailing conditions of competition within the market, including:**

- (a) Provide an overall description of the A4 copy paper market in Australia which explains its main characteristics and trends over the past five years;
- (b) Provide the sources of demand for A4 copy paper in Australia, including the categories of customers, users or consumers of the product;
- (c) Provide the proportion (%) of sales revenue from each of those sources of demand listed in (b);
- (d) Describe the factors that influence consumption/demand variability in Australia, such as seasonal fluctuations, factors contributing to overall market growth or decline, government regulation, and developments in technology affecting either demand or production;
- (e) Describe any market segmentations in Australia; such as geographic or product segmentations;
- (f) Provide the proportion of sales revenue from each of the market segments listed in (e);
- (g) Describe the way in which Australian manufactured, Indonesian and other imported A4 copy paper compete in the Australian market;
- (h) Describe the ways that A4 copy paper are marketed and distributed in the Australian market; and
- (i) Describe any other factors that are relevant to characteristics or influences on the A4 copy paper market in Australia.

*Provide documentary evidence to support the responses made to questions 1(a) to (i).*

Australian Paper estimates that as at December 2019 the annualised market size for A4 copy paper was approximately 165,000 tonnes per annum based on exports to Australia from all countries in addition to AP's domestic sales. Australian Paper has monitored the size of the Australian market and estimates that the market has contracted in 2016 (due to the cessation of stockpiling by importers) and in 2017 corrected to a typical market size of approximately 190,000 tonnes. Since 2017 the market size has continued to contract roughly in line with a longer term trend of around 5.1 per cent per annum.



It was identified by the Commission in Report 341 and 463 that three broad categories of users exist in the Australian A4 copy paper market, these are:

- 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 to market were identified as:

- Retail sector;
- Corporate stationery suppliers;
- Resellers; and
- The original equipment manufacturer (OEM) sector.

The Commission further identified three broad categories of A4 copy paper sold in the Australian market:

- Manufacturer brands;
- Private label/customer brands; and
- Plain or generic labelled brands.

The product, both locally produced and imported, is described variously as white 'cut sheet', 'cut ream', 'cut size', 'office paper', 'copy paper', 'Xerographic paper' or 'laser paper' is used in both dry toner and ink jet copying, faxing and printing in offices and in instant printing outlets. Used in a wide variety of commercial outlets including mail houses, digital, instant and commercial printing businesses. It is also used in smaller quantities for offset printing and for general printing, business, educational and home office uses.

The Australian market for cut sheet paper has dynamics that can be characterised as follows:

- A high volume commodity market with little readily discernible differentiation other than price;

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- “Brand recognition” effects relate primarily to Australian Paper's *REFLEX*® brand which has been regularly promoted on mass media since 1984;
- Whilst the cut sheet paper market in Australia may be characterised as mature, with overall annual volumes remaining fairly flat between 2008 and 2015, there was an apparent decrease in the market size in the 2016 calendar year (in terms of imports plus local sales being equal to demand). It has been suggested by independent third-party research by Industry Edge that some of this sudden decrease apparent demand was attributed to stock building by a particular importer over the prior 2 – 3 year period. The subsequent draw down of stocks meant decreased demand for new imports and local production which was evident in early 2016. Removing the effect of this market event would suggest that domestic cut sheet consumption is decreasing at a rate of approximately 3-5% p.a. over the medium to long term.
- Traditionally, growth in population and in the Australian workforce has offset declining per capita use of cut sheet paper, keeping the overall market size relatively stable. However, recent data suggests that growth in economic activity is no longer an accurate predictor of copy paper usage.
- The lack of growth in this market creates a situation where competing for market share with competitors is the only way to increase sales volumes; and continued low import pricing continues to lead domestic pricing down.
- Cut sheet paper in Australia is primarily sold through a handful of national key contract resellers and retailers. These include Winc (formerly known as Staples), COS, Officeworks, Australia Post and Office Brands buying group amongst others. This creates a highly concentrated procurement dynamic which places the balance of power firmly in the hands of the reseller. Cut sheet paper manufacturers seek to gain Australian market share by targeting direct supply contracts with these organisations;
- Following the outcomes in Investigation No. 341, where dumping measures were applied to exports from China, Indonesia, Brazil and Thailand, importers switched to new supply from the countries nominated in subsequent Investigation No. 463 (i.e. Austria, Finland, Korea, Russia and Slovakia). As a result Finland, Korea and Russia had dumping measures imposed upon their exports of like goods. In 2019 AP observed in the import statistics, and from market intel, that importers had recommenced significant volumes of supply from countries named in Investigation 341. This is due to a combination of low dumping margins and floor pricing which is no longer effective in removing injury given that market prices have moved upwards due to increasing costs.
- Australian Paper re-emphasizes that paper mills must, because of their need to service the huge capital base and high fixed costs inherent in their production processes, be competitive with alternate sources of supply, often selling down to their marginal cost to avoid down-time and lay-offs from which it is difficult to recover;
- For Australian Paper to maintain operations and to avoid extended down-time (which would increase fixed costs per tonne of paper) and lay-offs (which would result in permanent loss of the skilled workforce that is critical to continued operations), it must follow the price of the lower priced imports down to the low, severely dumped price levels of some imports. This price depression results in considerable material injury, which, in turn, affects Australian Paper's ability to invest in the equipment, facilities and research needed to remain abreast of market developments. The inevitable effect of this, in the long term, is that the Australian industry is faced with a falling market share, increased imports and greatly reduced viability; and
- The market is not prone to significant seasonal volume fluctuations, nor is the underlying end user volume very sensitive to changes in economic factors; being underpinned by the number of Australians in full time office-based employment. Volume growth as discussed is forecast to decline slightly on an annualised basis.

As indicated above, Australian Paper concurs with the Commission's assessment of the three basic categories of end user:

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- Home and home office/small office (serviced predominantly by retailers such as Officeworks, K-Mart, Big W, supermarkets, stationers, newsagents and Australia Post);
- Medium and large business, Government and education (serviced predominantly by contract resellers such as Winc, COS, Independent Buying Groups, Fuji Xerox; and the B2B arm of Officeworks);
- Industrial users including instant print and in-plant printing operations (serviced predominantly by wholesale paper merchants such as Spicers, Fuji Xerox, Ball and Doggett, and other contract resellers).

There are three categories of product (all interchangeable in a functional sense):

- Manufacturers brands (e.g. REFLEX®, Australian®, AA, Paper One);
- Private label products sold (e.g. Winc, COS Premium, J Burrows, Keji); and
- Plain label copy papers or generic products (targeted largely at the industrial user market which is not brand name or source-sensitive)

Both private label and generic products can be and are sourced from alternative manufacturers on a contract basis. Australian Paper estimates that approx. XX% of the market volume is made up of generic and private label brands means that AP remains heavily exposed to price undercutting from importers as customers shop around for best prices on the highly price sensitive commodity products. However, it is also true that Reflex and other manufacturer owned brands compete with imports whether these are exporter mill owned or private label as [contractual arrangements]

Dumping occurs in all end use sectors and channels of the Australian market and is supported by the common practice of retailers to use office paper as a low-priced item to draw in buyers and for businesses to issue tenders for stationery supply where the lowest office paper price has a large influence on the outcome.

**2. Provide a diagram which describes the Australian market structure for A4 copy paper, ensuring that all the categories of participants are included. In this diagram use linkages to illustrate the different levels of trade and distribution channels within the Australian market.**

Australian Paper agrees with the Commission's graphic representation of the Australian market structure which was included in Report 463.<sup>8</sup> Further detail related to distribution channels can also be found in this section of the report.

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<sup>8</sup> Report 463, Section 5.2.1 page 19.

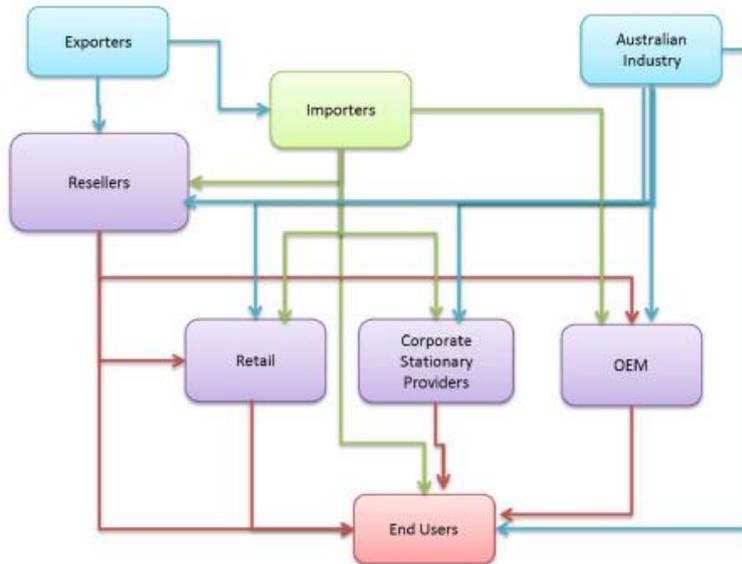


Figure 1: The Commission's representation of the Australian market

3. Describe the commercially significant market participants in the Australian market for A4 copy paper at each level of trade over the review period. Include in your description:
  - names of the participants;
  - the level of trade for each market participant (e.g., manufacturer, reseller, original equipment manufacturer (EOM), retailer, corporate stationer, importer, etc.);
  - a description of the degree of integration (either vertical or horizontal) for each market participant; and
  - an estimation of the market share of each participant.

Downstream market participants have been named in the above responses, however AP wishes to clarify that there is no vertical integration amongst domestic resellers, i.e. these are not affiliated with Australian Paper, or any of the exporting manufactures by way of ownership.

Australian Paper does not have the ability to measure market share in the downstream market and the Commission would be best served by surveying the aforementioned customers on their sales volumes in various markets to ascertain market share estimates.

4. Identify the names of commercially significant importers in the Australian market for A4 copy paper over the review period and estimate their market share. Specify the country each importer imports from and their level of trade in the Australian market, if known.

Major Australian Importers are understood to include but not limited to:

- COS
- Officeworks
- Jackaroo
- Paper Force
- Central National Australia

Given that imports are prevalent in every domestic channel to market, with some importers trading in multiple channels whilst stocking both Australian manufactured goods as well as imports, it is unclear to AP what the market share for each individual importer is likely to be. The only comment that Australian Paper could say with some level of certainty based on the import statistics is that the combined market share of the imports is likely to constitute around 25-30 per cent.

5. Describe the regulatory framework of the Australian market for A4 copy paper as it relates to competition policy, taxation, product standards and the range of the goods. Provide a copy of any regulation described, if available.

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There exists no Australian Standard to which A4 copy paper must comply.

**6. Describe any entry restrictions for new participants into the Australian market for A4 copy paper. Your response could include information on:**

- **resource ownership;**
- **patents and copyrights;**
- **licenses;**
- **barriers to entry;**
- **import restrictions; and**
- **government regulations(including the effect of those government regulations).**

*In responding to question 6 ensure that relevant regulations are referenced.*

Australian Paper is not aware of any specific restrictions or regulation placed on market participants other than those described under Australian law, and aside from the exports from countries which are subject to tariffs and Anti-Dumping measures of which the Commission will be aware.

## **C-2 Copy paper products in the Australian market**

1. **Generally describe the range of A4 copy paper products offered for sale in the Australian market. The description should include all goods under consideration including those produced by your company. Your description could include information about:**
  - **quality differences;**
  - **price differences;**
  - **supply/availability differences;**
  - **technical support differences;**
  - **the prevalence of private labels/customer brands;**
  - **the prevalence of generic or plain labels;**
  - **the prevalence of premium labels; and**
  - **product segmentation.**
2. **Describe the end uses of A4 copy paper in the Australian market from all sources.**
3. **Describe the key product attributes that influence purchasing decisions or purchaser preferences in the Australian market. Rank these preferences or purchasing influencers in order of importance.**
4. **Identify if there are any commercially significant market substitutes in the Australian market for A4 copy paper.**
5. **Identify if there are any commercially significant market complements in the Australian market for A4 copy paper.**
6. **Have there been any changes in market or consumer preferences in the Australian market for A4 copy paper in the last five years? If yes, provide details including any relevant research or commentary on the industry/sector that supports your response.**

Section C-2 has been adequately addressed in the description of like goods, model control codes section and separate submission dated 21 April 2020, and market segmentation commentary included in C-1 above.

### C-3 Relationship between price and cost in Australia

1. Describe the importance of the Australian market to your company's operations. In your response describe:

- (a) The proportion of your company's sales revenue derived from sales of A4 copy paper in Australia; and
- (b) The proportion of your company's profit derived from sales of A4 copy paper in Australia.

*In responding to question 1 please provide evidence supporting calculations.*

The Australian A4 copy paper market is extremely important to Australian Paper's ongoing operations which supports over 1,200 regional jobs directly, and over 6,000 flow on jobs.

In terms of the contribution of the like goods to Australian Paper's sales revenue, in 2019 the domestic sales of A4 copy paper contributed to XX per cent of the revenue from the like goods. The domestic A4 copy paper sales also contribute around XX per cent of AP's revenue from domestic sales across all manufactured products. Furthermore the like goods made up XX per cent of the revenue across the entire business. This significant contribution is despite the fact that selling prices in the Australian market have remained constrained through price depression and suppression, and it is reasonable to have expected that the contribution of sales revenue to AP would be even larger absent any dumping.

Given that Australian Paper has been subjected to the injurious impacts of dumping as confirmed by the Commission in investigations since 2015, it is not of any real value to the Commission to assess the contribution of the like goods to the broader business in terms of profit, since this continues to be impacted to the point where profitability on the like goods has been negative for 3 of the past 4 years.

2. Is your organisation/business entity the price leader of A4 copy paper in the Australian market? If no, please explain the reasons behind your response and specify the name(s) of the price leaders.

No, market pricing expectations are determined at all times by Australian Paper's import competitors' pricing which is readily available to customers and all market participants through import statistics as well as the many examples of import price offers made to Australian customers. In order to remain competitive and retain customer volumes AP must monitor pricing closely and ensure that we compete vigorously with imports when entering pricing negotiations with customers. Australian Paper consistently loses contracts to supply Australian customers to importers when it does not match the importers pricing which influence the customer's expectations and decisions. Price leaders in the downstream market are Officeworks due to market size and reach in the domestic retail and B2B marketplace and COS as large importer of copy paper operating in the mid-market, government and educational marketplaces.

During negotiation for supply, Australian Paper's customers will often refer to import competition directly in setting their price expectations. Numerous practical examples of this market dynamic were provided to the Commission during Investigation No. 341 and 463 respectively, as well as AP's application for review of measures Review 551.

3. Describe the nature of your product pricing (e.g., market penetration, inventory clearance, product positioning, price taker, price maker, etc.) and your price strategies (e.g., competition-based pricing, cost-plus pricing, dynamic pricing, price skimming, value pricing, penetration pricing, bundle pricing, etc.) in Australia. If there are multiple strategies applied, please rank these by importance. If there are different strategies for different products, please specify these. Provide copies of internal documents which support the nature of your product pricing.

Whilst all A4 copy paper products available in the Australian market compete directly for market share, there are examples of price differentiation associated with branding in the domestic market. For example, Reflex pricing is at a premium to other AP mill brands (Australian Office, Brilliant, Victory) and also customer private label brands. This is due to the sustained marketing campaigns

for the Reflex brand in Australia over the last 35 years, however, even Reflex pricing is affected by low priced imports since they compete in many of the same channels and are directly substitutable products with little discernible difference to the end user. AP manufactured customer private label brands and generic brands are even more closely aligned to import competition-based pricing in order to retain business. AP mill owned brands are generally priced at a level between Reflex and customer private label brands. All A4 copy paper products are priced with import competition in mind, and indeed many ongoing supply agreements use import pricing metrics to ensure that AP's products remain competitive, although this is a challenge recent times where market prices have been affected by dumping.

Over the years major customers in the Australian market have moved towards a three category price pointing methodology of price differentiation is via customer 'perception' of brand quality. It should be noted that this methodology is used for a range of product categories not just copy paper. Customers often refer to these price points in the form of – "good", "better", "best" and will assign relatively arbitrary perceived quality or brand parameters to each despite the fact that product differences are undiscernible unless placed side by side.

**4. Explain the process for how the selling prices of A4 copy paper for the Australian market by your business are determined. Provide copies of internal documents which support how pricing is determined.**

As referenced previously and demonstrated in Investigation No. 341 and No 463, Australian Paper remains a price taker in the domestic market given that the barriers for customers to seek alternate supply are very low, and the import prices have been shown to undercut the domestic industry in recent history. Customers routinely demonstrate their ability to circumvent Australian Paper supply by threatening to move to import competitors.

Such is the strength of the customers' bargaining position that AP must vigilantly monitor and manage costs upstream of the supply to ensure sell prices are as competitive with the import competition as they possibly can be.

For example, AP's full cost to serve is assiduously managed by establishing cost of manufacture and distribution method to AP's customer, forming a baseline of absolute lowest price position that AP can afford to provide. If competitor pricing undercuts AP's to an extent where the pricing falls below this baseline, it is inevitable that AP will lose the business to its competitor.

If method of distribution is simple and direct from the mill (point of manufacture) the cost saving of no warehousing is reflected in lower pricing than if the product requires warehousing before shipment to AP's customer. Costs are also lower if quantities shipped to the customer is in Full Truck Loads (FTL's or +28 pallets per delivery), versus smaller customer that require smaller quantities of say 4 pallets or 8 pallets. Lowest cost to serve is achieved if the customer can guarantee volume of +5,000 tonnes per annum and take delivery of copy paper direct from the mill. Cost increases if the customer needs warehousing and delivery in less than Full Truck Loads or Full Container Loads (FCL's).

**5. How frequently are your Australian selling prices reviewed? Describe the process of price review and the factors that initiate and contribute to a review. Provide the names and positions of all persons involved.**

Pricing is usually reviewed annually, and usually in line with annual budget setting which occurs in August to September. In addition to import prices and competitive pressure, cost to serve (described above), and input cost factors are also considered such as reviews in wood/ fibre pricing, utilities such as gas, electricity and water, chemical inputs along with logistics and warehousing. Key AP personnel which are involved in these reviews include;  
[Australian Paper personnel]

- 6. Rank the following factors in terms of their influence on your pricing decisions in the Australian market, with the most important factor ranked first and the least important factor ranked last:**

**Key influencing factors include:**

[Prioritization of AP's pricing influences]

- 7. Describe the relationship between selling price and costs to make and sell in the Australian market. Does your company maintain a desired profit margin for A4 copy paper? If not, does your company seek to maintain a desired profit margin for A4 copy paper? Provide copies of internal documents which support your response to this question.**

The company looks to set price to secure and maintain business with customers meaning that competitiveness with import alternatives is absolutely key. However, if input costs increase AP will consider this in the annual price review activity and evaluate the likelihood of success in passing this COGs increase onto the customer. If based on market information the evaluation results in the unlikely outcome of a price increase being achieved/accepted, the size of price increase that could be accepted by the market is determined. In many instances and particularly in recent years this results in no increase being issued due to competitive market pressure.

Australian Paper has continued to encounter injurious prices from dumped imports impacting profit through depression and suppression. Should the measures be revoked Australian Paper anticipates it will experience reduced sales volumes and pricing as the two exporters seek to again secure a foothold in the Australian market through their affiliated import Paper Force, and existing sales networks.

- 8. Do you offer price reductions (e.g., commissions, discounts, rebates, allowances or credit notes) in the Australian market? If yes, provide a description and explain the terms and conditions that must be met by the customer to qualify. Explain how the cost to make and sell are considered in establishing these price reductions. Provide copies of internal documents which support your claims in response to this question.**

Australian Paper in its normal day to day trading has a preference for no price reductions in the form of commissions, rebates allowances etc., i.e. net pricing is the preferred method. The company does however provide rebates to customers (where this is negotiated) in some pricing.

At times discounts maybe offered to support marketing activities to drive volumes for a set period of time. This activity is targeted at existing AP customers and is offered to support price discount to the end consumers / user for incremental purchasing or to incentivise trial in the case of a newly launched product.

- 9. Do you offer bundled pricing in the Australian market? If yes, explain how the pricing for bundled A4 copy paper is determined. Explain how the costs to make and sell are considered in establishing these bundled prices for A4 copy paper. Provide copies of internal documents which support your claims in response to this question.**

No

- 10. Does the volume of sales to a customer or the size of an order influence the selling price? If yes, advise how volume is used to determine selling prices. Explain how the costs to make and sell are considered in establishing volume based prices for A4 copy paper. Provide copies of internal documents which support your claims in response to this question.**

Sales volumes can impact pricing, insofar as it relates to the associated cost to make and sell as well as the cost to serve highlighted in AP's response to question 4. For example if the annual volume for a single product is greater than 5,000 tonnes, the cost to make and sell is likely to be slightly lower than if the annual volume was 1,000 tonnes, through production and supply chain efficiencies.

**11. Does your organisation/business entity use sales contracts in the Australian market? If yes:**

**(a) What proportion of your sales revenue would come from contracted sales versus uncontracted sales?**

For breakdown see Confidential Attachment C-3.11.1\_ Annual Contracted Volume by ACC – 2019

By net revenue the approximate proportion of AP's 2019 Sales which came from formalised contracts was only XX per cent. These contracts are usually negotiated with AP's larger customers seeking to lock down supply for 1 – 3 years. Historically contracted volumes have constituted the largest proportion of AP's sales, however, in 2019 [details of contract negotiation with major customers]. A significant divide in pricing expectations between AP and these customers as a result of import competitor offers has created a situation where these contracts [agreement details]

In 2019, XX per cent of sales revenue for copy paper came from customers which AP had some kind of agreement or arrangement with whether through individually negotiated purchase orders or orders received by email but no formal contract. 2019 sales to [major customers] are included here since [negotiation and agreement details]. The remaining X per cent of sales are to customers who buy from AP on individual order basis similar to a 'spot buy'.

This shift away from formalised agreements by AP's major customers represents a significant increase in commercial risk, in that a vastly larger portion of its sales are no longer secured with contracts. This means that in 2019 and beyond, Australian Paper is exposed more than ever to price undercutting by importers as XX percent of sales revenue is derived from sales arrangements which are not formalised in any commercial contract.

**(b) Do you offer exclusivity contracts? If yes, what proportion of your sales revenue would come from exclusivity contracts?**

No, Australian Paper does not offer any exclusivity on supply.

**(c) How frequently are sales contracts renegotiated?**

Minimum of 1 year, target is 3 years

**(d) How frequently are price reviews conducted between contracts?**

Historically pricing reviews were conducted every 6 months, however customers have increasingly demanded that pricing reviews be conducted annually instead. Given the strong bargaining position of customers in the domestic market AP has recently agreed to contracts which include annual pricing reviews if the contract is greater than 1 year.

**(e) Do you provide opportunities for price reviews for customers within contracts? If yes, provide a description of the process and an explanation of the circumstances that might lead to a price review.**

Yes, if the period of the contract is greater than 12 months, a pricing review is then likely to be agreed upon being 12 months from the commencement date. Customers usually request the review is based on import pricing data at set periods, and changes to the contract commencement price may occur if the import pricing data fluctuates accordingly. A proportional percentage price change could be applied to establish the forward pricing for the future periods.

**(f) Do changes in your costs to make and sell enable you to review prices for customers within contracts?**

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No, cost changes cannot trigger price reviews within contracts, however, if the contract has a mandated price review, then costs may be considered as part of a justification.

- (g) Provide a list of the customers under contract during the review period and copies of the two largest contracts in terms of sales revenue.**

Customers under contract in 2019:

[List of contracted customers]

- 12. Provide copies of any price lists for A4 copy paper used in the Australian market during the review period. If you do not use price lists, describe the transparency of your prices in the Australian market.**

AP does not issue a market wide price list, however as part of an individual contract negotiation a price list will be stipulated under the agreement. These price lists are considered confidential to the parties to the agreement, however, given that buying groups can represent a large number of individual businesses, it is not uncommon for these price lists to be shared amongst market participants without AP's knowledge or approval.

- 13. How do you differentiate pricing for different A4 copy paper products in the Australian market? Describe how your products are grouped for price differentiation and the methodology used. Describe any cost to make or selling cost differences between differentiated products. Describe how these cost differences (if any) influence pricing decisions. Provide copies of internal documents which support your claims in response to this question.**

Australian Paper believes this issue has been adequately addressed in responses to Questions 2 and 3 above, as well as the MCC commentary as well as the separate MCC submission made on 21 April 2020.

- 14. Do you tier or segment your Australian A4 copy paper customers in terms of pricing? If yes, provide:**

- (a) a general description of how this is done;
- (b) list the factors that influence pricing differentiation in different tiers or segments;
- (c) explain how cost to make and selling costs are considered in making pricing decisions for different tiers or segments.

*Provide copies of internal documents which support your claims in response to this question.*

Australian Paper believes this issue has been adequately addressed in above responses.

- 15. Do you sell A4 copy paper to related entities in Australia? If yes, describe how prices are set for related party transactions and specify what proportion of your sales in terms of sales revenue are to related party entities. If available, provide copies of any internal documents relevant to establishing pricing to related parties.**

No.

## C-4 Marketing and sales support in the Australian market

1. How does your company market A4 copy paper in the Australian market? Include in your response the value proposition used (e.g., competitive price, superior quality, reliability, availability, etc.).

A copy of an internal communications memo relating to current Reflex marketing campaigns has been included in Confidential Attachment C-4.1\_Marketing Alert - Reflex 2020 Marketing Campaigns.

2. Does your company conduct brand segmentation in the Australian market for A4 copy paper? If yes, describe the brand segmentation used and provide the proportion of sales revenue derived from each brand segment.

Australian Paper recognises that brand perception is the primary differentiator on price in the Australian market however AP reiterates that there is little to no discernible difference among brands to end users unless paper is placed side by side. All A4 copy paper in the Australian market competes directly regardless of brand, given that imports and Australian produced goods are prevalent in every channel to market (commercial, retail, printer and OEM), and there are examples of resellers of imports and Australian products competing in multiple channels to market as recognised by the commission in Investigation 463.

[brand categories and share of revenue]

Confidential Attachment C-4.2\_Yearly Sales Matrix (Tonnes) by Industry Cust.Hier2

3. Provide examples of your Australian advertising of A4 copy paper over the past five years. If you have not used advertising in Australia, provide examples of any other A4 copy paper promotion campaigns you have conducted over the review period.

See Confidential Attachment C-4.1.



4. How many people are in your Australian sales team and where are they located? In general terms, how are they remunerated? If they are offered performance pay based on sales, describe the performance indicators used to establish the performance pay. Provide copies of internal documents which support your claims in response to this question.

Remuneration is base salary with no more than XX% paid in bonus. Bonuses are paid on the basis of achieving volume, revenue and margin targets annually and are limited to staff directly involved in the sales i.e. customer service and analysts are not eligible. Additional incentives are also offered based on targeted marketing campaigns at seasonal periods throughout the year. Bonuses are tied to a range of targets, not just sales of the like goods.

[sales teams]

5. Describe what parameters are provided to sales staff to assist in establishing pricing for A4 copy paper when negotiating sales with customers. Provide copies of internal documents which support your claims in response to this question.

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Pricing is set at head office level and deviations from the pricing provided needs to be approved at head office level. Deviations are minimal if at all.

## SECTION D PROPER COMPARISON – PRODUCTION & PRODUCTION COSTS

In responding to the questions in section D, please respond to these questions only in relation to the review period.

### D-1 Production of A4 copy paper

- 1. Describe how your company determines its volume of production for A4 copy paper, product mix of production and the factors that contribute to these decisions. How frequently are production volumes determined for A4 copy paper? How frequently is the product mix determined for A4 copy paper? Provide copies of internal documents which support your claims in response to this question.**

The volume of production is determined by the market customer base and the brand mix to serve across Australia and New Zealand. AP has a production cycle process that broadly aligns with the 12 calendar months of the year. Customers are required to provide forecast to AP as well as then providing orders to a communicated production schedule for the cycle being planned. As an example customers are provide on the 20th of April a production schedule for the month of June in which they are to provide orders to Australian Paper by end of April for direct production where that is the agreement. Alternatively AP produces a range of our own brands that we supply direct to customer through the above CPS process as well as stock across the warehouse network in Australia. Additionally per agreement with customers we service those agreements with their own brands stocked through the Australian Paper warehouse network.

- 2. What lead times are typically needed to adjust volumes of production for A4 copy paper? Provide copies of internal documents which support your claims in response to this question.**

The lead times to produce A4 copy paper are determined by the lead times of packaging materials from supplier such as ream wrapper and cartons. Ream Wrapper printing and production is approximately 20 working days from order to delivery, hence the need for AP to lock in production schedule as above by end April for June production. Finalisation of this program and allowance for late orders from customer base under normal process sees packaging requirements locked and ordered for delivery across the June month of production. With regards to the production of base papers the production is highly flexible with regards to the availability of base production as outlined in item 5 below and is well within the packaging lead times.

- 3. Do you have warehousing facilities for A4 copy paper? If no, what do you do with excess inventory? If yes:  
(a) What is the volume capacity of these facilities?  
(b) What was the monthly amount of inventory maintained during the review period?  
(c) What is the average period of time that inventory is retained (describe how this is calculated)?**

*Provide copies of internal documents which support your claims in response to this question.*

Australian Paper has a network of warehouses across Australia to service a broad range of customers across AP's production from all machines at Maryvale, imported traded goods such as some stationery items and envelopes from Preston manufacturing facility and overprint services for the envelope market.

[Monthly total inventory (Maryvale manufactured A4) held over 2019 was as follows across the AP network]

[detail of specific case of demand fluctuation in 2019] As for inventory turnover for 2019, AP had X turns for the year. Refer to Confidential Attachment D-1.3\_Monthly closing inventory for A4 copy on closing monthly total inventory and monthly sales for A4 copy from Maryvale.

**4. Have there been any changes to the type of capital or technology utilised by your company in the manufacturing of A4 copy paper in the last five years? If yes, provide details.**

During the last 5 years Australian Paper has incorporated additional product technologies into some of the A4 copy paper products. The technologies have provided a feature of incremental quality improvements which result in higher print quality outcomes for consumers when the paper is used for the printing of documents. The technologies have been adapted from the field of manufacturing specialty treated papers which are used for commercial continuous high speed inkjet printing. A subset of components of the technologies used for treated inkjet papers have been applied to A4 copy paper. AP products with this technology is limited to a number of products sold with associated claims of improved print quality, including Reflex. The feature is identified by the 'Inkwise' logo and claim. The feature was identified as a consumer-valued addition, initially to our Reflex papers, as a way to provide a range of differentiated and improved quality copy paper. Benchmarking of competitive products indicated a number of papers were available which could provide consumers with similar outcomes under certain similar methods of use.

**5. For each paper plant capable of producing paper that could be utilised to make A4 copy paper, provide the date that production facility came into operation and the production capacity of the plant over the past five years. The production capacity should be based on an actual production capacity, not a budgeted production capacity. Provide copies of internal documents which support your claims in response to this question.**

AP has two paper machines that are capable of producing the base paper that can be converted to A4 copy paper. M3 was commissioned in 1971 as a packaging papers machine and first produced office papers in 1987. M5 was commissioned in 1998 for white office papers as well as printing and publishing papers.

- M3 which on average net actual production over the last 5 years has produced XXktpa due to the mix of papers produced to meet customer demands of the machines product range. This machine is capable of producing XXXktpa net of Office 80GSM copy paper on budget NTPH if required based on machine hours available in 2020. Currently this machine has not been called upon to produce base paper for white A4 copy papers this year and due to market demand is not expected to do so. It continues to produce the small quantities of base papers for the Reflex range of coloured A4 copy papers.
- The second and primary machine that produces base paper for converting into A4 is the M5 machine which on average net actual production over the last 5 years has produced XXXktpa due to the mix of papers produced to meet customer demands of the machines product range. This mix and output is pretty constant around the 80GSM mark.

**6. List any significant investments in the past five years to either upgrade, refurbish or build any of the following types of plants:**  
**(a) wood chipping;**  
**(b) pulp production;**  
**(c) paper manufacturing; and**  
**(d) paper cutting or rolling facilities.**

*Provide copies of internal documents which support your claims in response to this question.*

There have been no significant investments related to A4 copy paper production capability in the last 5 years.

**7. Confirm whether management reports are prepared on production costs. If yes:**  
**(a) specify how often these cost reports are prepared;**  
**(b) describe the level of detail in those reports and whether they enable the establishment of costs of producing A4 copy paper; and**

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- (c) specify to whom within the company these reports are provided; and**
- (d) provide copies of these reports for each month of the review period.**

Australian Paper's financials reports are run monthly and are distributed to all upper and lower level management, including General Managers, CFO, production and maintenance managers. As Maryvale is a continuous running plant AP's main cost reports are mainly down to a machine cost per month rather than a grade cost. AP does run quarterly reports down to a grade level which supports data provided in the confidential financial appendices related to cost to make and sell and can be provided as part of the verification due to large file size.

## SECTION E PROPER COMPARISON – A4 COPY PAPER MARKETS

Australian industry may have relevant information which may enable it to respond to the following questions regarding the Indonesian A4 copy paper market.

In responding to the questions in section E please respond to these questions in relation to the review period (1 January 2019 to 31 December 2019).

### E-1 Prevailing conditions of competition in the market

#### 1. Describe the foreign market for A4 copy paper and the prevailing conditions of competition within the market, including:

- (a) Provide an overall description of the A4 copy paper market in Indonesia which explains its main characteristics and trends over the past five years;
- (b) Provide the sources of demand for A4 copy paper in Indonesia, including the categories of customers, users or consumers of the product;
- (c) Provide the proportion (%) of sales revenue from each of those sources of demand listed in (b);
- (d) Describe the factors that influence consumption/demand variability in Indonesia, such as seasonal fluctuations, factors contributing to overall market growth or decline, government regulation, and developments in technology affecting either demand or production;
- (e) Describe any market segmentations in Indonesia; such as geographic or product segmentations;
- (f) Provide the proportion of sales revenue from each of the market segments listed in (e);
- (g) Describe the way in which Indonesian and imported A4 copy paper compete in the Indonesian market;
- (h) Describe the ways that A4 copy paper are marketed and distributed in the Indonesian market; and
- (i) Describe any other factors that are relevant to characteristics or influences on the A4 copy paper market in Indonesia.

*Provide documentary evidence to support the responses made to questions 1(a) to (i).*

#### **Comment applicable to Section E:**

Australian Paper is not able to provide any significant insights into the Indonesian domestic A4 copy paper market aside from those included in Confidential Attachment E-1.1\_Indonesia Bi Annual Paper Tracking April 2020

Australian Paper is not able to provide any significant insights into the China domestic A4 copy paper market aside from those included in Confidential Attachment E-1.2\_China Bi Annual Paper Tracking April 2020

Australian Paper is not able to provide any significant insights into the Thailand domestic A4 copy paper market aside from those included in Confidential Attachment E-1.3\_Thailand Bi Annual Paper Tracking April 2020



## **WORKSHEETS**

Worksheet A0	Authority to deal with representative
Worksheet A1	Australian production
Worksheet A2	Australian market
Worksheet A3	Sales turnover
Worksheet A4	Domestic sales
Worksheet A5	Sales of Other production
Worksheet A6.1	Cost to make and sell (and profit) domestic sales
Worksheet A6.2	Cost to make and sell (and profit) export sales
Worksheet A7	Other injury factors
Worksheet B1	Upward sales reconciliation template
Worksheet B2	Upward costs reconciliation template
Worksheet E1	Export sales to Indonesia