



Australian Government
Anti-Dumping Commission

PUBLIC RECORD

INVESTIGATION 242
INVESTIGATIONS INTO THE ALLEGED DUMPING OF
NEWSPRINT
EXPORTED FROM FRANCE AND THE REPUBLIC OF
KOREA (KOREA)

DUMPING MARGIN CALCULATION

BOWATER KOREA LTD

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN WILL
BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT THE
FINAL POSITION OF THE ANTI-DUMPING COMMISSION**

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2 BACKGROUND

2.1 Application

On 24 March 2014, Norske Skog Industries Australia Limited (NSIA) lodged an application for the publication of a dumping duty notice in respect of certain newsprint exported to Australia from France and Korea. Newsprint is the type of paper used in the printing of newspapers and other publications such as advertising brochures and telephone directories. A detailed description of the newsprint subject to the investigation is at Section 3.

The applicant identified the injurious effects as:

- Lost sales volumes;
- Price undercutting;
- Price depression;
- Price suppression;
- Reduced profit and profitability; and
- Reduced revenues.

Following consideration of the application, the Commissioner decided not to reject the application and the Commission initiated an investigation on 22 April 2014. Public notification of initiation of the investigation (public notice) was made in *The Australian* newspaper on that day.

Anti-Dumping Notice (ADN) No. 2014/34 provides further details of the investigation and is available on the Commission's website at www.adcommission.gov.au.

In respect of the investigation:

- the investigation period for the purpose of assessing dumping is 1 April 2013 to 31 March 2014; and
- the injury analysis period for the purpose of determining whether material injury has been caused to the Australian industry is from 1 April 2010.

2.2 Background

Following initiation of the investigation, a search of the Australian Customs and Border Protection Service (ACBPS) import database indicated that Bowater Korea Ltd (Bowater) supplied newsprint to Australia in the period 1 April 2013 to 30 March 2014 (the investigation period).

The Commission notified Bowater of the initiation of the investigation and sought its cooperation with the investigation and provided an exporter questionnaire for the company to complete. A non-confidential version of the questionnaire response is available on the public record.

2.3 Purpose of this report

Based on the volume of Bowater exports relative to the total export volume during the investigation period, a decision was made not to conduct an on-site verification visit at Bowater's premises.

The purpose of this report is to assess Bowater's exporter questionnaire response and to make a preliminary assessment of:

- who is the exporter and who is the importer;
- export prices and normal values; and
- dumping margins.

2.4 Company background

According to the exporter questionnaire response, Bowater is an indirect subsidiary of Resolute Forest Products Inc, a United States company headquartered in Montreal, Canada and listed on the New York and Toronto stock exchanges. Bowater is directly owned by Canadian company, [REDACTED], which is also headquartered in [REDACTED].

Bowater manufactures and distributes the goods under consideration in the domestic market and exports to various countries, including Australia. The goods exported to Australia during the investigation period were 100% recycled newsprint with a basis weight of [REDACTED] grams per square metre (gsm). The material composition characteristics such as colour, brightness, opacity, and tensile strength are the same in all products exported to Australia. The exception to this is the roll width and diameter.

As at 3 April 2014, three shareholders own 5% or more of capital in the parent entity, Resolute Forest Products Inc: ¹

- Fairfax Financial Holding Limited – 30.7%;
- Steelhead Partners LLC – 13.6%; and
- Donald Smith & Co. Inc – 9.6%.

2.5 Accounting

The exporter questionnaire states that Bowater and its parent entity, Resolute Forest Products Inc, have a calendar year financial accounting period from 1 January to 31 December. Bowater provided a copy of its chart of accounts and internal financial statements. Consolidated financial statements were also provided that are prepared in accordance with the United States generally accepted accounting principles. The internal financial accounting practices and policies used by Bowater are in line with the generally accepted accounting principles of Korea.

¹ According to Bowater's exporter questionnaire.

3 GOODS UNDER CONSIDERATION AND LIKE GOODS

3.1 The goods the subject of the applications

3.1.1 Description

The goods the subject of the application (the goods) are:

Newsprint in roll or sheet form having a weight within the range 40 grams per square metre (gsm) to 46 gsm (inclusive) and brightness below a measure of 70 ISO.

3.1.2 Product Standards

The ANZSIC code applicable to newsprint is understood to be 1510 'Pulp, Paper and Paperboard Manufacturing'.

3.1.3 Tariff classifications

The application states that newsprint is classified to:

- tariff subheading 4801.00.20 with statistical code 02;
- tariff subheading 4801.00.31 with statistical code 04; and
- tariff subheading 4801.00.39 with statistical code 19.

The general rate of duty applied to goods exported from France and Korea are:

- goods classified under 4801.00.20 and 4801.00.31, a duty rate of 5% applies; and
- goods classified under 4801.00.39, statistical code 19, goods are duty free.

3.2 Like goods

Subsection 269T(1) defines like goods to mean:

Goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration.

Bowater manufactures and distributes the goods under consideration in the domestic market and exports to various countries, including Australia. The goods exported to Australia during the investigation period were 100% recycled newsprint with a basis weight of ■ gsm. The material composition characteristics such as colour, brightness, opacity, and tensile strength are the same in all products exported to Australia. The exception to this is the roll width and diameter.

Bowater's exporter questionnaire response provides details of the models and product types of newsprint exported to Australia and sold domestically in Korea. ■ newsprint models were exported to Australia during the investigation period. In contrast, Bowater's domestic sales are comprised of ■ models. ■ of these models have a basis weight of ■ gsm and the remaining ■ models have a basis weight of ■ gsm with each model having different width and diameters.

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Bowater categorised its newsprint sales using model and product codes that differentiates the products by:

- [REDACTED];
- [REDACTED];
- [REDACTED]; and
- [REDACTED].

Bowater advised that there are no identical matches between products exported to Australia with that sold domestically in Korea. This is attributed to: [REDACTED]

[Confidential information: explanation of differences.]

Bowater's exporter questionnaire included a table identifying the domestic models that are similar to the models exported to Australia. However, variances between the matched models are noted such as [REDACTED]. Bowater provided an adjustment figure 'for differences in [REDACTED]' in its domestic sales spreadsheet for the costs it incurs to add [REDACTED] cores to the products compared to the [REDACTED] cores on all of the products sold to Australia.

Despite the differences in the product between the domestic and exported product to Australia, it appears that the newsprint in the domestic market has characteristics closely resembling the goods exported to Australia and are like goods in terms of subsection 269T(1) of the *Customs Act 1901*.²

² A reference to a division, section or subsection in this report is a reference to a provision of the *Customs Act 1901*, unless otherwise specified.

4 EXPORT SALES TO AUSTRALIA

4.1 General

Based on the information in the exporter questionnaire response, Bowater manufactures and distributes its product on a [REDACTED] basis to the customer's [REDACTED].

The exporter questionnaire response states that it is not related to any of its Australian customers; however, it has a sales agent, [REDACTED], that negotiates transactions on its behalf.

Bowater provided a spreadsheet containing a detailed listing of all export sales to Australia during the investigation period. It also provided the following source documents for two transactions:

- Provisional order confirmation;
- Commercial invoice;
- Bill of lading;
- Marine cargo insurance policy;
- Export declaration;
- Ocean freight and port charges;
- Sales agent invoice fee; and
- Customs brokerage and port charges.

For the two transactions provided by Bowater we were able to reconcile the following items to the spreadsheet provided in Bowater's exporter questionnaire: customer name; model; product code; invoice number; invoice date; payment terms; gross invoice value; ocean freight and handling costs.

We were unable to verify: marine insurance; packing costs; and inland transport, as we had no documentation in relation to these expenses. Bowater provided invoices in relation to post importation costs (port charges and delivery); however, a variance of [REDACTED]% and [REDACTED]% is noted between the supporting documentation and the costs detailed in the exporter questionnaire spreadsheet. In terms of the gross invoice value, the variance was not material equating to 1% respectively.

4.2 The exporter

It appears that Bowater is the exporter of newsprint exported to Australia from Korea as it:

- is the manufacturer of the goods;
- owns the goods at the time of export and until it is delivered to the customer's delivery address;
- is the principal in the transaction located in the country of export from where the goods were shipped; and
- sent the goods for export to Australia, and were aware of the identity of the Australian customer.

4.3 The importer

Based on the information contained in the exporter questionnaire, Bowater's shipping terms are [REDACTED].

[REDACTED]. [Confidential information – commercial terms with customers]

[REDACTED]. [Confidential information – commercial terms with customers] As such, we consider Bowater to be the importer of the goods.

4.4 Export price – preliminary assessment

It appears that the goods have not been exported to Australia otherwise than by the importer. Therefore, the export price has been determined under paragraph 269TAB(1)(c) having regard to all circumstances of the exportation. Specifically, the export price has been calculated using the invoiced price less any post exportation charges including ocean freight, marine insurance, importation, port and delivery fees.

The weighted average quarterly [REDACTED] export price in South Korean Won (KRW) is summarised in Table 1 below:

Sum of WA EXP [REDACTED]					
Product code	Q1	Q2	Q3	Q4	Grand Total
[REDACTED]				[REDACTED]	[REDACTED]
[REDACTED]		[REDACTED]			[REDACTED]
[REDACTED]	[REDACTED]				[REDACTED]
[REDACTED]			[REDACTED]		[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Table 1 – Weighted Average (WA) Export Price, [REDACTED]

Details of export price calculations and summary export prices are at **confidential appendix 1**.

5 COSTS TO MAKE & SELL

In its exporter questionnaire response, Bowater provided a cost to make and sell spreadsheet for the various newsprint models. The spreadsheet shows monthly costs data for each model sold domestically and exported to Australia.

The calculation of unit costs to make and sell for newsprint from Bowater is contained in confidential appendix 2.

6 DOMESTIC SALES

6.1 General

In its exporter questionnaire response, Bowater stated that it sold most of its goods into the Korean domestic market directly to end users with some sales made to distributors that on-sell to end users. Bowater provided a spreadsheet containing detailed sales in the Korean domestic market.

Bowater also provided the following source documents for two domestic sales invoices:

- Order status report;
- Sales agreement;
- Sales invoice;
- Freight ledger;
- Transaction receipt;
- Electronic tax invoice; and
- Transaction breakdown of the freight.

The two domestic sales invoices provided by Bowater are comprised of [REDACTED] sales transactions. One sales invoice is comprised of [REDACTED] sales whilst the other invoice is comprised of [REDACTED] sales. We were able to match the invoice number, invoice date, order number, quantity and the gross invoice value. A small discrepancy was noted in relation to freight. The freight charge according to the freight ledger for [REDACTED] transactions should have been [REDACTED] per tonne but Bowater applied [REDACTED]. For the other [REDACTED] transactions, the freight charge applied is [REDACTED] when the freight ledger states it should have been [REDACTED]. These discrepancies are not material.

6.2 Ordinary course of trade

Section 269TAAD provides that if like goods are sold in the country of export at a price less than the cost of such goods and are unrecoverable within a reasonable period, they are taken not to have been paid in the ordinary course of trade (OCOT).

In order to test whether the domestic sales of newsprint are in the OCOT, the profitability of each arm's length transaction was first tested individually by comparing the unit selling price to the corresponding quarterly weighted average CTMS for each model. For those sales found to be sold at a loss, recoverability was then tested by comparing the unit selling price to the weighted average CTMS of the relevant model over the whole of the investigation period.

This test was undertaken for each model individually and where the volume of unrecoverable sales exceeds 20%, the unrecoverable sales for those models were deemed not to be made in the OCOT.

6.3 Suitability of sales

Subsection 269TAC(2) provides that certain domestic sales may be unsuitable for use in determining normal values because of a factor in the market. One such factor is where there is an absence, or low volume, of sales of like goods in the domestic market.

Low volume is defined in subsection 269TAC(14) as less than 5% of the total volume of the goods that are exported to Australia by the exporter.

As discussed in section 3.2, Bowater advised that there are no identical matches between products exported to Australia with that sold domestically in Korea and included a table identifying the domestic models that are similar to the models exported to Australia.

Bowater has confirmed that the significant determinants influencing the price of newsprint are basis weight, brightness and to a lesser degree the core type. However, we note that the table identifying the similar domestic models to export models have a different basis weight. We identified one domestic model that has the same basis weight as the export models. Accordingly, we consider that it is more appropriate to use domestic model [REDACTED] for the basis of model matching as it has identical basis weight of [REDACTED] gsm and identical brightness ([REDACTED] ISO percentage) with the goods exported to Australia.

Although the models have varying width, diameter and colour, these characteristics have no material impact on the price of newsprint. We found that model [REDACTED] had sufficient OCOT sales on the domestic market during the investigation period.

6.4 Domestic sales – preliminary assessment

There were sufficient volumes of domestic sales of model number [REDACTED] that were arm's length transactions and at prices that were in OCOT.

Based on the information provided, we consider that Bowater's domestic sales of model [REDACTED] are suitable for assessing normal value under subsection 269TAC(1).

The domestic sales spreadsheet, including OCOT test, is at **confidential appendix 3**.

7 THIRD COUNTRY SALES

In its exporter questionnaire response, Bowater provided a summary of its newsprint export sales to third countries.

There is sufficient information from the submission to calculate normal values for newsprint using domestic sales or a construction method. As such, we did not undertake detailed analysis of the third country data.

8 ADJUSTMENTS

8.1 General

To ensure that the normal value was comparable to the Australian export price, the following adjustments were made.

8.2 Domestic credit terms

A downward adjustment for the domestic credit terms in the normal value calculation is required to ensure fair comparison to the export price. The downwards adjustment was based on the average monthly borrowing interest rate as reported in the exporter questionnaire and applied against the payment terms which ranged from [REDACTED] to days credit of [REDACTED] days and up to [REDACTED] days.

8.3 Domestic inland transport

A downward adjustment for the domestic inland transport in the normal value calculation is required to ensure fair comparison to the export price. The downwards adjustment was based on actual costs incurred by Bowater converted to a rate per tonne.

8.4 Domestic differences in core

As discussed in section 3.2, a downward adjustment for the differences in core type in the normal value calculation is required to ensure fair comparison to the export price. The adjustment reflects the differences between a steel sleeve core sold in the domestic market and the plain core exported to Australia.

8.5 Domestic Commission

A downward adjustment for domestic commission in the normal value calculation is required to ensure fair comparison to the export price. The commission is paid to [REDACTED] in relation to sales to [REDACTED] based on a predetermined formula.

8.6 Domestic Advertising & Entertainment

Bowater's exporter questionnaire states that the company incurs advertising and entertainment expenses in relation to its domestic sales. Bowater spent [REDACTED] of its gross domestic sales revenues on advertising and entertainment in support of domestic sales and applied that factor to the gross invoice value for each transaction as a deduction. We do not consider this deduction appropriate as advertising and entertainment expenditure are routine transactions that relate to the general cost of business and it has not been demonstrated that the expenditure is connected to the goods.

8.7 Export inland transport

An upward adjustment for export inland expenses from the factory to the port of loading in the normal value calculation is required to ensure fair comparison to export price.

8.8 Export Port handling

An upward adjustment for Korean export port handling charges in the normal value calculation is required to ensure fair comparison to export price.

8.9 Export packaging

An upwards adjustment for export packaging costs was applied to the normal value to ensure fair comparison to export price.

8.10 Export commission

For export sales, Bowater pays commissions to its corporate parent at a rate of [REDACTED] for all its [REDACTED]. An upwards adjustment for commissions was applied to the normal value to ensure a fair comparison to export price.

8.11 Export credit terms

An upward adjustment for export inland expenses in the normal value calculation is required to ensure fair comparison to export price. The upwards adjustment was based on the average monthly borrowing interest rate as reported in the exporter questionnaire.

8.12 Adjustments – Conclusion

In accordance with subsection 269TAC(8), these adjustments to the normal value are necessary to ensure a fair comparison of normal values and export prices:

Domestic credit costs	Deduct an amount for domestic credit costs
Domestic inland transport	Deduct an amount for domestic inland transport costs
Domestic differences in core type	Deduct an amount for differences in the core type
Domestic Commission	Deduct an amount for domestic commission costs
Export inland transport	Add an amount for export inland transport costs
Export handling charges	Add an amount for export handling charges
Export packaging charges	Add an amount for export packaging charges
Export Commission	Add an amount for export commission

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Export credit terms	Add an amount for export credit terms
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9 NORMAL VALUE

There were sufficient volumes of domestic sales of model [REDACTED] that were arm's length transactions and at prices that were in OCOT. Therefore, prices paid in respect of domestic sales of model [REDACTED] are suitable for assessing normal values under subsection 269TAC(1).

In using domestic sales as the basis for normal values, certain adjustments, in accordance with section 269TAC(8), are necessary to ensure fair comparison of normal values with export prices as outlined in section 8 above.

A summary of normal value calculations is at **confidential appendix 4**.

10 DUMPING MARGIN – PRELIMINARY ASSESSMENT

In calculating the dumping margin, each export transaction was compared with the corresponding quarterly normal value for the model [REDACTED]. The weighted average product dumping margin for newsprint is 14.4%.

Bowater has indicated that it has a number of concerns with the dumping margin calculation, which it has communicated to the Commission. The Commission is considering these concerns and has asked for further information from Bowater. This includes details about Bowater's contentions on the dumping margin calculation methodology, which the Commission has requested be placed on the public file. It is possible that, if amendments are made to the dumping margin calculations to address Bowater's concerns in the manner expected by Bowater the dumping margin may be different than is expressed in this report.

A summary of the dumping margin calculation is at **confidential appendix 5**.

11 LIST OF APPENDICES

Confidential Appendix 1	Export price
Confidential Appendix 2	Cost to make and sell
Confidential Appendix 3	Domestic sales
Confidential Appendix 4	Normal values
Confidential Appendix 5	Dumping margin