



**Australian Government**  
**Australian Customs and  
Border Protection Service**

**PUBLIC RECORD**

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*CUSTOMS ACT 1901 - PART XV B*

**INTERNATIONAL TRADE REMEDIES BRANCH**

**STATEMENT OF ESSENTIAL FACTS NO.176**

**INVESTIGATION INTO THE ALLEGED DUMPING OF  
STRUCTURAL TIMBER**

**EXPORTED TO AUSTRALIA FROM**

**THE REPUBLIC OF AUSTRIA, CANADA, THE CZECH  
REPUBLIC, THE REPUBLIC OF ESTONIA, THE FEDERAL  
REPUBLIC OF GERMANY, THE REPUBLIC OF LITHUANIA,  
SWEDEN AND THE UNITED STATES OF AMERICA**

**13 March 2012**

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**ABBREVIATIONS**

ACDN	Australian Customs Dumping Notice
AKD Softwoods	Associated Kiln Driers Pty Ltd
Boral Timber	Allen Taylor & Company Limited
ATP	Allied Timber Products Pty Ltd
Australian industry	the Australian industry producing structural timber
BSG	Building Supplies Group Holding Pty Ltd
CEO	Chief Executive Officer of the Australian Customs and Border Protection Service
Customs and Border Protection	the Australian Customs and Border Protection Service
D & R Henderson	D & R Henderson Pty Ltd
The delegate	Delegate of the CEO
Gunns	Gunns Limited
Hyne	Hyne & Sons Pty Ltd
Minister	The Minister for Home Affairs
SEF	Statement of essential facts
the goods	the goods the subject of the application
Tilling Timber	Tilling Timber Pty Limited
Wespine	Wespine Industries Pty Ltd

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## 1. SUMMARY AND RECOMMENDATIONS

This investigation is in response to an application by Building Supplies Group Holding Pty Ltd (BSG), Hyne & Sons Pty Ltd (Hyne) and Gunns Limited (Gunns) for the publication of a dumping duty notice in relation to structural timber exported to Australia from:

- the Republic of Austria (Austria);
- Canada;
- The Czech Republic;
- The Republic of Estonia (Estonia);
- The Federal Republic of Germany (Germany);
- The Republic of Lithuania (Lithuania);
- Sweden; and
- The United States of America (the USA).

This statement of essential facts (SEF) sets out the facts on which, unless the investigation is terminated earlier, the Chief Executive Officer (CEO) of the Australian Customs and Border Protection Service (Customs and Border Protection) proposes to base his recommendations to the Minister for Home Affairs (the Minister) in relation to the application.

### 1.1. Proposed outcome

The CEO proposes to terminate the investigation in so far as it relates to each of the exporters visited and to each of the nominated countries generally.

### 1.2. Application of law to facts

#### 1.2.1. Authority to make decision

Division 2 of Part XVB of the *Customs Act 1901*<sup>1</sup> (the Act) sets out, among other matters, the procedures to be followed and the matters to be considered by the CEO in conducting investigations in relation to the goods covered by the application for the purpose of making a report to the Minister. The CEO's powers under this Division have been delegated to certain officers of Customs and Border Protection.

#### 1.2.2. Application

On 5 August 2011, BSG, Hyne and Gunns lodged an application requesting that the Minister publish a dumping duty notice in respect of structural timber exported to Australia from eight countries.

<sup>1</sup> 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.

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The CEO was satisfied that the application was made in the prescribed manner by a person entitled to make the application<sup>2</sup>.

### 1.2.3. Initiation of investigation

After examining the application, and further information submitted, the CEO was satisfied that:

- the application was made in the manner required by the legislation;
- there is an Australian industry in respect of like goods; and
- there appeared to be reasonable grounds for the publication of a dumping duty notice in respect of goods the subject of the application<sup>3</sup>.

The CEO decided not to reject the application and notice of the initiation of the investigation was published on 9 September 2011<sup>4</sup>.

### 1.2.4. Statement of essential facts

The CEO must, within 110 days after the initiation of an investigation, or such longer period as the Minister allows<sup>5</sup>, place on the public record a statement of the facts on which the CEO proposes to base his recommendations in relation to the application<sup>6</sup>.

In formulating the SEF, the CEO must have regard to the application concerned, any submissions concerning publication of the notice that are received by Customs and Border Protection within 40 days after the date of initiation of the investigation and any other matters considered relevant<sup>7</sup>.

For this investigation, the Minister granted a 75 day extension to the date by which the SEF must be placed on the public record. This SEF is now due on or before 13 March 2012.

## 1.3. Preliminary findings

The following preliminary findings have been made based on all available information:

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<sup>2</sup> Section 269TB

<sup>3</sup> Subsection 269TC(1)

<sup>4</sup> Subsection 269TC(4)

<sup>5</sup> Section 269ZHI

<sup>6</sup> Subsection 269TDAA(1)

<sup>7</sup> Subsection 269TDAA(2)

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## 1.3.1. Australian industry (Chapter 4 of this report)

There is an Australian industry producing like goods.

## 1.3.2. Dumping (Chapter 6 of this report)

Exporter	Country	Dumping margin
Stora Enso Wood Products GmbH	Austria	-9.7%
The Teal-Jones Group	Canada	-9.1%
Western Forest Products Inc	Canada	-9.7%
Stora Enso Wood Products Planá SRO & Stora Enso Wood Products Ždírec SRO	The Czech Republic	-28.6%
Stora Enso Eesti AS	Estonia	-7.5%
Egger Sägewerk Brilon GmbH	Germany	-4.4%
Ilim Timber HWN Holz Werke Nord GmbH	Germany	+15.7%
Stora Enso Lietuva UAB	Lithuania	-20.7%
Stora Enso Timber AB	Sweden	-9.5%
Vaagen Bros. Lumber, Inc	The USA	-9.0%

## 1.3.3. Injury (Chapter 7 of this report)

The Australian industry producing like goods has suffered injury in the form of:

- reduced sales volume;
- reduced market share;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced production volume;
- reduced revenue;
- reduced employment;
- underutilised production capacity;
- deteriorating returns on investment; and
- reduced ability to attract investment.

## 1.3.4. Causation (Chapter 8 of this report)

Customs and Border Protection found that there has been dumping of some or all of the structural timber exported to Australia from Germany but that the injury, if any, to the Australian industry that has been or may be caused by that dumping is negligible.

The dumped imports from Ilim Timber HWN Holz Werke Nord GmbH (Ilim Timber) represent less than 2% of the Australian market, have not been increasing in volume, are

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largely directed at niche markets within Australia and have not shown a pattern of undercutting undumped imports in the Australian market.

## 1.4. Final report

Unless the investigation is terminated earlier, the CEO's final report and recommendation must be provided to the Minister by **26 April 2012**.



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## 2. BACKGROUND

### 2.1. Initiation

On 5 August 2011, BSG, Hyne and Gunns lodged an application requesting that the Minister publish a dumping duty notice in respect of structural timber exported to Australia from the eight nominated countries.

The applicants claimed that the allegedly dumped imports of structural timber from the nominated countries had caused material injury to the Australian industry in the form of:

- reduced sales volume;
- reduced market share;
- price undercutting;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced production volume;
- reduced revenue;
- reduced employment;
- underutilised production capacity;
- deteriorating returns on investment; and
- reduced ability to attract investment.

Public notification of initiation of the investigation was made on 9 September 2011 with a notice in *The Australian* newspaper and Australian Customs Dumping Notice (ACDN) No. 2011/41, which is available on the internet at [www.customs.gov.au](http://www.customs.gov.au) by following the anti-dumping link.

The investigation period was set as 1 July 2010 to 30 June 2011. Structural timber exports to Australia during that period were examined to determine whether dumping had occurred. Customs and Border Protection examined details of the Australian market from 1 July 2007 for injury analysis purposes.

The initiation notice advised that the SEF for the investigation would be placed on the public record by 28 December 2011. Due to the number of interested parties involved in the investigation, the Minister was requested to grant an extension of the deadline for the publication of the SEF.

The Minister extended the deadline for the publication of the SEF to 13 March 2012<sup>8</sup>. ACDN No. 2011/63 was issued on 23 December 2011 notifying of the Minister's decision and interested parties were also separately notified.

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<sup>8</sup> Pursuant to section 269ZH1

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### 2.2. Responding to the SEF

This SEF sets out the essential facts on which Customs and Border Protection proposes to terminate the investigation. This statement is an important stage in the investigation. It informs interested parties of the facts established and allows them to make submissions in response to the statement. It is important to note that the statement may not represent the CEO's final views.

Interested parties are given 20 days to respond to the statement. These responses will be considered in deciding whether to terminate the investigation, in whole or in part, or whether to make a report to the Minister. A report would recommend whether or not a dumping duty notice should be published and the extent of any interim duties that are, or should be, payable. If the investigation is not earlier terminated, a report must be made to the Minister by 26 April 2012.

Responses to this SEF should be made no later than **Monday 2 April 2012**.

Submissions should be sent to:

Director Operations 3  
Trade Measures Branch  
Australian Customs and Border Protection Service  
5 Constitution Avenue  
CANBERRA ACT 2601  
AUSTRALIA

Submissions can also be sent to fax number +61 2 6275 6990 or email [tmops3@customs.gov.au](mailto:tmops3@customs.gov.au).

Customs and Border Protection is not obliged to have regard to any submissions made in response to the SEF received after 2 April 2012 if to do so would, in the opinion of the delegate, prevent the timely preparation of the report to the Minister.

Interested parties intending to respond to the statement must include a non-confidential version of their submission for placement on the public record<sup>9</sup>. Submissions provided in confidence must be clearly marked "In-Confidence".

As well as non-confidential submissions by interested parties and this SEF, the public record contains non-confidential versions of visit reports and other publicly available documents. The SEF should be read in conjunction with these documents.

Any party wishing to examine the public record before lodging a submission in response to this statement should contact Trade Remedies Office Management staff on (02) 6275 6547.

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<sup>9</sup> In preparing a non-confidential version, interested parties should have regard to the requirements set out in ACDN 2006/54.

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Documents placed on the public record are also available on the electronic public record at <http://adpr.customs.gov.au/Customs/>.

All ACDNs are available on the internet at the Customs and Border Protection home page [www.customs.gov.au](http://www.customs.gov.au) (follow prompts for "Anti-dumping").

Please note that confidential appendices referred to in this statement are not available to interested parties.

### **2.3. Previous structural timber cases**

There have been no previous cases in Australia concerning structural timber.

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## 3. THE GOODS AND LIKE GOODS

### 3.1. Preliminary finding

The Australian industry produces structural timber that has characteristics closely resembling those of structural timber manufactured in the eight nominated countries and exported to Australia, and therefore structural timber manufactured by the Australian industry are like goods<sup>10</sup>.

### 3.2. The goods

The goods the subject of the application are described as follows.

Structural timber, being coniferous wood that is sawn or chipped lengthwise, capable of being used in structural applications in accordance with the Building Code of Australia and that:

- has a thickness exceeding 6mm; and
- has a cross-sectional area of less than 120cm<sup>2</sup>; and
- is untreated, or treated to meet the requirements of hazard class H1 or H2 as specified in Australian standard AS1604.1.

For clarification, the goods do not include weatherboards, laminated veneer lumber, glued laminated timber or timber treated to a level above hazard class H2 but do include end-jointed or finger-jointed structural timber.

#### 3.2.1. Product information

The most common use for structural timber is in dwelling construction. Structural timber is used either in the manufacture of pre-fabricated house frames and roof trusses, or in on-site 'stick-building' dwelling construction.

To qualify as structural for use in accordance with the Building Code of Australia, the timber must be stress graded, most commonly to a mechanical grade (MGP10, MGP12, MGP15) or a visual grade (eg F5, F7).

Structural timber is manufactured and sold in a range of cross sections and lengths. The most common cross sections in Australia are 90mm x 35mm, 90mm x 45mm, 70mm x 35mm and 70mm x 45mm.

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<sup>10</sup> In terms of section 269T

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Various softwood species are used to produce structural timber. Interested parties agreed that the species type generally had little relevance for consumers in Australia. The exception was that some European timber species do not have the same density as Australian pine species meaning that larger nail plates were required to manufacture roof trusses from these species.

The goods under consideration include timber treated with chemicals to provide termite resistance for indoor use but do not include timber treated to higher levels, typically designed for outdoor use.

### 3.2.2. Use of industry expert

In the process of considering the application for anti-dumping measures, Customs and Border Protection engaged the services of a technical expert to provide product knowledge and advice about the definition of the goods the subject of the application.

### 3.3. Tariff classification

The goods the subject of the application can fall within the following tariff classifications in Schedule 3 of the *Customs Tariff Act 1995*:

- 4407.10.10 (statistical codes 22, 23, 24, 25 and 33);
- 4407.10.99 (statistical codes 08, 09, 10, 11, 12 and 13); and
- 4409.10.00 (statistical code 01).

The general rate of duty is currently 5 percent. Imports from Canada are subject to a preferential duty rate of 4 percent. Imports from the USA are free under the Australia-USA free trade agreement.

At the commencement of the investigation, the tariff classification 4409.10.00 was not listed as being relevant to the goods the subject of the application. Trade Services Branch of Customs and Border Protection has since advised that certain structural timber, for example timber with a surface sometimes described as rougher headed or microline, should be correctly classified to 4409.10.00.

### 3.4. Like goods

The Act defines like goods as 'goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration'<sup>11</sup>.

In assessing like goods, Customs and Border Protection uses an analytical framework, which identifies different ways of examining likeness, namely physical likeness, commercial likeness, functional likeness and production likeness. The greatest weight is usually placed on physical likeness.

<sup>11</sup> Subsection 269T(1)

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**3.4.1. Customs and Border Protection's assessment**Physical likeness

The majority of the structural timber imported from the nominated countries is physically similar to the goods manufactured by the Australian industry. It is predominantly dried, planed timber of various cross sections and lengths certified as meeting either the MGP or F grades.

The exception was a significant quantity of the timber imported from Canada, including that exported by the Canadian manufacturers visited, which was green (undried) timber certified to an F grade.

Commercial likeness

Australian structural timber competes directly with the imported timber in the Australian market.

Functional likeness

Both the imported and Australian produced structural timber have comparable or identical end-uses.

Production likeness

The production processes used to manufacture structural timber in Australia and in the eight nominated countries are similar.

Preliminary finding – like goods

Based on the information available, Customs and Border Protection has made a preliminary finding that structural timber manufactured by the Australian industry:

- has similar physical characteristics to the goods (although there are some differences with the green timber imported from some Canadian exporters);
- competes in the same markets as the goods;
- has similar end uses as the goods; and
- is made in a similar manner as the goods.

Customs and Border Protection has therefore made a preliminary finding that structural timber produced by the Australian industry are like goods to the structural timber imported from the eight nominated countries.

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## 4. AUSTRALIAN INDUSTRY

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### 4.1. Preliminary finding

Customs and Border Protection has made a preliminary finding that there is an Australian industry producing like goods.

### 4.2. Manufacturing/production process

For goods to be taken as produced in Australia:

- they must be wholly or partly manufactured in Australia; and
- for the goods to be partly manufactured in Australia, at least one substantial process in the manufacture of the goods must be carried out in Australia<sup>12</sup>.

The investigation identified eight Australian manufacturers of structural timber, BSG, Hyne, Gunns, Associated Kiln Driers Pty Ltd (AKD Softwoods), Allied Timber Products Pty Ltd (ATP), Wespine Industries Pty Ltd (Wespine), D & R Henderson Pty Ltd (D & R Henderson) and Allen Taylor & Company Limited (Boral Timber). No other party claimed to be an Australian producer of structural timber.

Customs and Border Protection visited some of the manufacturing facilities of each of the applicants, BSG, Hyne and Gunns, and is satisfied that at least one substantial process in the manufacture of structural timber is carried out in Australia, and that therefore structural timber is wholly or partly manufactured in Australia. Details of the manufacturing process are contained in the visit reports available on the public file.

### 4.3. Preliminary conclusion – Australian industry

Based on the information available:

- the structural timber manufactured by the Australian industry are like goods;
- the like goods were wholly or partly manufactured in Australia because a substantial process of manufacture is carried out in Australia; and
- there is an Australian industry consisting of eight manufacturers.

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<sup>12</sup> Subsections 269T(2) and 269T(3)

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## 5. AUSTRALIAN MARKET

### 5.1. Market Structure

#### 5.1.1. Australian manufacturing

In Australia, structural timber is used in the manufacture of frames and trusses and in stick-built framing construction for housing, other dwellings, alterations and additions, and for commercial and industrial buildings.

The main source of demand for structural timber within Australia is residential detached housing activity. The applicants estimated that the building industry accounts for approximately 70 percent of sawn timber usage in Australia. The industry is therefore subject to the cyclical fluctuations of housing construction.

Home builders typically use timber for house construction whether through pre-fabricated wall frames and roof trusses, or through on-site 'stick built' construction.

The key building markets (and therefore markets for structural timber) are in the mainland capital cities. Historically, the market has been supplied by the local industry and to a small extent by imports, mainly from New Zealand, the USA and Europe.

Australian producers predominantly sell their structural timber directly to timber merchants and frame and truss companies. Some Australian producers sell a proportion of their product through timber wholesalers who then on-sell to timber merchants and frame and truss manufacturers.

#### 5.1.2. Imports

The eight nominated countries were the major sources of structural timber imports over the period examined. New Zealand remains a significant source of timber imports but Customs and Border Protection understands that only very small volumes from New Zealand would fall within the definition of structural timber for this investigation. The vast majority is timber used for appearance purposes or which is treated for outdoor use. On this basis, New Zealand imports have been excluded from the structural timber market.

### 5.2. Market size

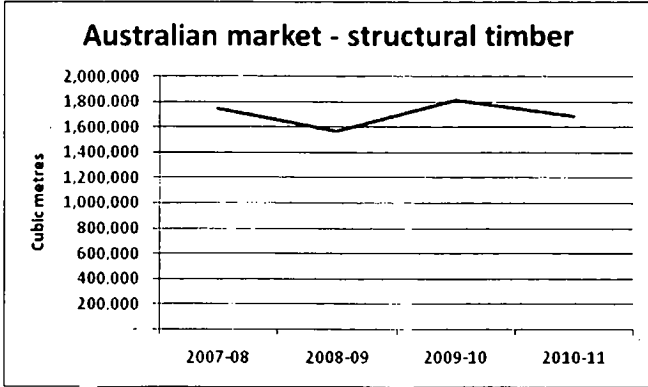
Customs and Border Protection has combined Australian industry sales data with import data to estimate the size of the Australian market for structural timber. It estimates that the Australian market for structural timber in 2010/11 was approximately 1.7 million cubic metres, a decline of approximately 7 percent from 2009/10.

The following chart shows the Australian market size from July 2007.



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Summary data for the Australian market is at **confidential appendix 1**.

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6. DUMPING INVESTIGATION

6.1. Preliminary finding

Customs and Border Protection has made the following preliminary dumping findings in respect to those exporters visited:

Exporter	Country	Dumping margin
Stora Enso Wood Products GmbH	Austria	-9.7%
The Teal-Jones Group	Canada	-9.1%
Western Forest Products Inc	Canada	-9.7%
Stora Enso Wood Products Planá SRO & Stora Enso Wood Products Ždírec SRO	The Czech Republic	-28.6%
Stora Enso Eesti AS	Estonia	-7.5%
Egger Sägewerk Brilon GmbH	Germany	-4.4%
Ilim Timber HWN Holz Werke Nord GmbH	Germany	+15.7%
Stora Enso Lietuva UAB	Lithuania	-20.7%
Stora Enso Timber AB	Sweden	-9.5%
Vaagen Bros. Lumber, Inc	The USA	-9.0%

The volume of dumped goods from Germany is not negligible.

For all of the nominated countries other than Germany, the balance of exports to Australia (excluding those volumes investigated and found to be undumped) is less than 3% of the total Australian import volume and is therefore negligible.

The aggregated volume of goods not investigated (and therefore potentially dumped) from each of these countries is less than 7% of the total Australian import volume and is therefore also negligible on this measure.

6.2. Introduction

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

This chapter explains the preliminary results of investigations into whether structural timber was exported from the eight nominated countries at dumped prices during the investigation period (1 July 2010 to 30 June 2011).

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More detail on the calculation of export prices and normal values is available by accessing the exporter visit reports available on the public record.

The calculations of dumping margins for the exporters visited are at **confidential appendix 2**.

### 6.3. Importers

Following the initiation of the investigation, Customs and Border Protection searched its database and identified numerous importers that appeared to have imported structural timber from one or more of the nominated countries in the investigation period.

Letters were sent to all known importers informing them of the investigation and inviting submissions. Questionnaires were sent to the seven largest importers, which represented approximately 90 percent of import volumes over the investigation period. Customs and Border Protection received completed questionnaires from all of the major importers and visited six of these to verify the information provided. Non-confidential versions of the visit reports were placed on the public record.

### 6.4. Exporters

Customs and Border Protection identified exporters of structural timber to Australia from each of the nominated countries and sent them an exporter questionnaire to complete. Customs and Border Protection received 16 completed exporter questionnaires<sup>13</sup> and conducted verification visits covering 11 exporters. The companies visited represented 88 percent of structural timber exports to Australia from the nominated countries over the investigation period.

Non-confidential versions of the reports of the visits to the exporters were placed on the public record.

### 6.5. Review by cost accounting experts

Customs and Border Protection engaged cost accounting experts, KPMG, to undertake an independent review of the procedures followed and evidence reviewed during visits to three exporters to Australia, Stora Enso Eesti AS of Estonia and the two Stora Enso entities in the Czech Republic.

The purpose of the review was to consider whether the verification undertaken by Customs and Border Protection was adequate, and whether the cost data verified were reasonable and reliable for the purpose of determining normal values.

KPMG found that the verification procedures in relation to calculating normal values were consistent with Customs and Border Protection's *Dumping Manual*<sup>14</sup> and

<sup>13</sup> The Stora Enso Group lodged a response for each sawmill

<sup>14</sup> Volume 22 Dumping and Subsidisation

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*Verification Guidelines*<sup>15</sup> and were considered reasonable for the purposes of calculating normal values. It also found that the cost data used appear reasonable and reliable for determining normal values.

Copies of the KPMG reports were placed on the public record.

## 6.6. Review by timber industry experts

Customs and Border Protection engaged the services of industry experts who together have extensive experience in timber industry accounting practices and sawmill operations.

The experts were asked to examine the verification reports and supporting papers/data to assess, having regard to the legislative and policy parameters, whether the cost data obtained were reasonable and reliable for the purposes of assessing normal values and dumping margins. The experts were also asked to provide an opinion as to whether the exporter visit teams' like goods findings were reasonable, and if not, why not.

In their engagement, the experts had access to:

- commercial-in-confidence documents provided by exporters;
- confidential verification reports;
- staff that conducted the verification visits;
- cost models for comparative purposes;
- an independent cost benchmarking report; and
- independent expert cost accounting advice by KPMG relating to certain verifications by Customs and Border Protection.

The experts concluded that Customs and Border Protection had made reasonable assessments of goods sold domestically by the exporters, which can reasonably be regarded as like goods to structural timber exported to Australia. They also concluded that the cost data used by Customs and Border Protection for determining dumping margins were reasonable and reliable for this purpose.

A copy of the experts' report was placed on the public record.

## 6.7. Benchmarking of costs

Both the Australian manufacturers applying for anti-dumping measures and the major exporting Group, Stora Enso, referred in their submissions to this investigation to a report entitled *Global Timber/Sawmill/Lumber Cost Benchmarking Report – 2010 Annual Basis and Q1/2011*. The report, prepared by International WOOD MARKETS Group Inc,

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<sup>15</sup> Internal guidelines on verification preparation and processes

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provides the benchmarking of log costs, sawmilling costs, lumber revenues and margins for over 25 countries or regions, including the countries covered by this investigation. 76

Customs and Border Protection purchased a copy of the report and compared the verified costs presented by a number of the exporters visited with the benchmarking report. The fact that the verified costs were reasonably consistent with the benchmarking report provided further assurance about the costs presented by the exporters. Customs and Border Protection considers that disparities between estimates of dumping submitted by the applicants and information verified with the exporters are principally associated with export prices.

The timber industry experts engaged also had regard to the benchmarking report as part of their review and noted no unexplained material variances from the verified exporter costs they examined.

## 6.8. Submissions by the applicants

The applicants lodged submissions addressing each of the exporter visit reports. The submissions had several dominant themes which are addressed below:

### 6.8.1. Average costing versus specific product costing

The applicants submitted that Customs and Border Protection should have obtained from exporters the cost of making and selling the particular timber exported to Australia rather than an average cost of planed, dried timber manufactured by the sawmills in the investigation period.

The applicants stated that a significant "grade adjustment penalty" would apply to the cost of manufacturing structural timber for Australia, making it more expensive to produce than the average cost of timber manufactured. The applicants provided an estimate of the "grade adjustment penalty" but provided no detail on how this was calculated or exactly what components it comprised.

Customs and Border Protection found that none of the sawmilling operations examined, including those of the Australian manufacturers, calculated, in the normal course of their cost accounting, separate costs for particular timber products. Logs of various lengths, diameters and quality are sourced according to availability and demand. Each log is scanned and a computer aided decision made on the most efficient and desirable cutting pattern. The sawn timber is graded, visually or mechanically, according to the standards and requirements of the particular market. A particular log would typically produce a range of timber products and a particular timber product could be sourced from a range of log types.

Customs and Border Protection ensured that exporters provided specific costs for a dried and planed product as opposed to an average cost of all products that would include product that was not dried or planed. Where appropriate, it also ensured specific costs for finger jointed and treated timber.

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Customs and Border Protection found that the exporters visited kept records relating to like goods that were in accordance with generally accepted accounting principles in the country of export and which reasonably reflected the competitive market costs of production. In accordance with Customs Regulation 180, Customs and Border Protection was required to work out the costs of production using the information set out in the exporter's records.

On the evidence available, there were no grounds upon which to require exporters to calculate the product cost to a level of detail not supported by their accounting or management records or industry accounting practices, both in Australia and overseas.

## **6.8.2. Treatment of losses on lower grade products**

An unavoidable feature of sawmilling is the production of timber that doesn't meet the desired visual or mechanical standards of what might be termed A grade product. However, there is usually a market for B grade product in applications that don't require timber with high visual or mechanical standards eg the production of pallets. Such sales are often at a price below the average cost of production.

The applicants proposed that losses made on inferior timber products should be allocated across higher grade products, including the structural timber exported to Australia.

Customs and Border Protection considers that treating B grade timber as a joint product, as the exporters do, and not a by product, is a legitimate and reasonable accounting approach. It is an approach adopted in Australia as well as overseas and Customs and Border Protection does not see any grounds to compel the overseas exporters to apply losses on B grade timber to the goods under consideration.

## **6.8.3. Arms length transactions**

The applicants questioned whether certain inter-company arrangements impacted on the arms length nature of transactions, both in the procurement of raw materials and services and in the sale of timber products domestically and to Australia. The query was particularly relevant to the Stora Enso group of companies.

Obtaining reasonable assurances that costs and prices are not impacted by non-arms length relationships is fundamental to assessing dumping. Customs and Border Protection examined the operations of the Stora Enso Group, both in an overall sense and by reference to detailed transactions and source documents. As a result of this assessment Customs and Border Protection concluded that the evidence supported the claims of the Stora Enso Group that each entity within the Group operates as a profit making entity and that transactions between the entities are conducted on a commercial arms length basis.

The independent timber industry experts examined information on both log purchases and residue sales and verified that those purchases and sales were made at market or arms length prices.

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In respect of Stora Enso's export sales to Australia, the applicants claimed that these sales could not be arms length as they surmised that there would be no competitive bidding between the various mills from which product for Australia is sourced and because freight arrangements would be made at the group level. Customs and Border Protection does not agree that the co-ordination of such arrangements by the group would automatically render the sales to Australia as non-arms length and the price of the sales as being unreliable. After considering the arrangements in detail, Customs and Border Protection was satisfied that the sales were arms length transactions and that the price paid by the importer could be used to establish the export price for the purposes of the anti-dumping legislation.

#### 6.8.4. Standard of verification

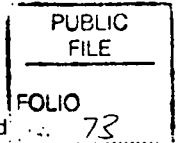
The applicants considered that Customs and Border Protection's verification was vulnerable in the areas of fibre costs, residue credits and conversion costs. Aside from the issues addressed above, issues raised by the applicants included:

- the consistency of units of measurement across all stages of production was not clear;
- limited evaluation of log prices;
- uncertainty about how Customs and Border Protection assessed the adequacy of charges for raw material procurement by a related party;
- a lack of discussion on the allocation of costs associated with residue sales;
- no discussion on allocation of overheads to machine centres;
- no independent validation of wage costs and labour rates; and
- the fact that some verifications were conducted remotely which restricted the ability to assess certain aspects of a mill's operations such as machine age and staffing levels.

As part of responding to an anti-dumping exporter questionnaire, exporters are required to provide their full cost to make and sell the product, normally on a quarterly basis. As part of the verification process, Customs and Border Protection seeks assurance that such costs reasonably reflect the full cost of production and sale and are based on records kept in accordance with generally accepted accounting principles in the country of export.

Face to face verification meetings with an exporter typically cover three to five days and the ground covered and the evidence requested is extensive. However, it is not the intention to re-construct a manufacturer's accounting records from source documents or to verify in detail every element of its operations. Customs and Border Protection seeks to gain an assurance about the costs and other information presented by reconciling this to audited financial statements, management reports and to a sample of source documents such as invoices for the purchase of major raw materials.

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In the case of structural timber, Customs and Border Protection was able to send experienced teams to all co-operating exporters<sup>16</sup> and is satisfied that it has verified the costs of production and sale thoroughly in accordance with the normal standards required of exporters in an anti-dumping case. The exporters visited were co-operative in responding to requests made by the visit teams. Based on its testing, Customs and Border Protection assessed the information provided to be complete, relevant and accurate.

The outcomes of the reviews conducted by the accounting experts and timber industry experts and the benchmarking of the costs have provided further assurance that the information presented to Customs and Border Protection is accurate and a reasonable basis on which to assess dumping.

## 6.9. Export prices

For all exporters visited, Customs and Border Protection concluded that the goods:

- had been exported to Australia otherwise than by the importer;
- had been purchased by the importer from the exporter; and
- the purchase of the goods by the importer were arms length transactions.

The export price for structural timber exported by each of the companies visited was established using the price paid for the goods by the importer less any post exportation expenses<sup>17</sup>.

Export prices were calculated for each export transaction. In each case, the individual transactions were used to determine a weighted average export price for all shipments exported for each quarter of the investigation period.

## 6.10. Normal values and dumping margins

### 6.10.1 Austria

#### Stora Enso Wood Products GmbH

##### Normal value

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<sup>16</sup> With the exception of one small volume Swedish exporter that was not visited.

<sup>17</sup> Ss. 269TAB(1)(a)



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Customs and Border Protection found that Stora Enso Wood Products GmbH did not sell on the domestic market goods that are like to the structural timber exported to Australia. The Austrian mills are focussed on producing glue laminated beams and posts for the export market.

Customs and Border Protection constructed a normal value for Stora Enso Wood Products GmbH being the sum of:

- the amount determined to be the cost of production of the goods in Austria; and
- on the assumption that the goods, instead of being exported, had been sold for home consumption in the ordinary course of trade in Austria, such amounts determined would be the administrative, selling and general costs associated with the sale and the profit on that sale.

In the absence of a suitable group of sales to establish an appropriate profit margin, an amount of profit has been included based on the Stora Enso Group's published profit rate.

Adjustments to the normal value were made for differences in domestic and export credit terms.

## Dumping margin

Customs and Border Protection calculated a dumping margin for structural timber exported to Australia by Stora Enso Wood Products GmbH over the investigation period based upon a comparison of the quarterly weighted average normal values and export prices<sup>18</sup>.

The calculations showed the goods were not dumped. The dumping margin calculated was minus 9.7 percent.

## **6.10.2 Canada**

### **The Teal-Jones Group**

#### Normal value

Customs and Border Protection found that there was an insufficient volume of domestic sales of like goods to determine a normal value on the basis of domestic selling prices.

Customs and Border Protection constructed a normal value being the sum of:

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<sup>18</sup> Ss 269TACB(2)(a).

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- the amount determined to be the cost of production of the goods in Canada;
- on the assumption that the goods, instead of being exported, had been sold for home consumption in the ordinary course of trade in Canada, such amounts determined would be the administrative, selling and general costs associated with the sale.

Based on its assessment of The Teal-Jones Group domestic sales performance on structural timber products, no amount of profit was added to the construction.

No adjustments were considered necessary to make the constructed normal value comparable with export prices.

## Dumping margin

Customs and Border Protection calculated a dumping margin for structural timber exported to Australia by The Teal-Jones Group over the investigation period based upon a comparison of the quarterly weighted average normal values and export prices<sup>19</sup>.

The calculations showed the goods were not dumped. The dumping margin calculated was minus 9.1 percent.

## **Western Forest Products Inc**

### Normal value

Customs and Border Protection found that there was an insufficient volume of domestic sales of like goods to determine a normal value on the basis of domestic selling prices.

Customs and Border Protection constructed a normal value being the sum of:

- the amount determined to be the cost of production of the goods in Canada; and
- on the assumption that the goods, instead of being exported, had been sold for home consumption in the ordinary course of trade in Canada, such amounts determined would be the administrative, selling and general costs associated with the sale and the profit on that sale.

As domestic sales of like goods sold in the ordinary course of trade were not in sufficient volume for establishing normal value, Customs and Border Protection used the profit achieved on domestic sales of the same general category of goods.

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<sup>19</sup> Ss 269TACB(2)(a).

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No adjustments were considered necessary to make the constructed normal value comparable with export prices.

## Dumping margin

Customs and Border Protection calculated a dumping margin for structural timber exported to Australia by Western Forest Products Inc over the investigation period based upon a comparison of the quarterly weighted average normal values and export prices<sup>20</sup>.

The calculations showed the goods were not dumped. The dumping margin calculated was minus 9.7 percent.

### **6.10.3 The Czech Republic**

#### **Stora Enso Wood Products Planá SRO and Stora Enso Wood Products Ždírec SRO**

## Normal value

Customs and Border Protection found that Stora Enso Wood Products Planá SRO and Stora Enso Wood Products Ždírec SRO sold like goods on the domestic market of the Czech Republic. However, there was a low volume of sales that were most closely comparable to the exported goods<sup>21</sup>

Customs and Border Protection constructed normal values for the Czech entities, being the sum of:

- the amount determined to be the cost of production of the goods in the Czech Republic; and
- on the assumption that the goods, instead of being exported, had been sold for home consumption in the ordinary course of trade in the Czech Republic, such amounts determined would be the administrative, selling and general costs associated with the sale and the profit on that sale.

The profit margin used was based on a broader set of like goods than those found to be most comparable to the exports to Australia.

Adjustments to the normal value were made for differences in domestic and export credit terms.

## Dumping margin

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<sup>20</sup> S. 269TACB(2)(a)

<sup>21</sup> S.269TAC(14)

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Customs and Border Protection calculated a dumping margin for structural timber exported to Australia by Stora Enso Wood Products Planá SRO and Stora Enso Wood Products Ždírec SRO over the investigation period based upon a comparison of the quarterly weighted average normal values and export prices<sup>22</sup>.

The calculations showed the goods were not dumped. The dumping margin calculated was minus 28.6 percent.

## 6.10.4 Estonia

### Stora Enso Eesti AS (Napi)

#### Normal value

Customs and Border Protection found that Stora Enso Eesti AS sold like goods on the domestic market of Estonia but considered that there was insufficient information to adjust the selling prices of these goods to ensure a fair comparison.

Customs and Border Protection constructed a normal value, being the sum of:

- the amount determined to be the cost of production of the goods in Estonia; and
- on the assumption that the goods, instead of being exported, had been sold for home consumption in the ordinary course of trade in Estonia, such amounts determined would be the administrative, selling and general costs associated with the sale and the profit on that sale.

Customs and Border Protection used the profit achieved by Stora Enso Eesti AS on sales in Estonia of timber meeting the European standard C24.

Adjustments to the normal value were made for differences in domestic and export credit terms.

#### Dumping margin

Customs and Border Protection calculated a dumping margin for structural timber exported to Australia by Stora Enso Eesti AS over the investigation period based upon a comparison of the quarterly weighted average normal values and export prices<sup>23</sup>.

The calculations showed the goods were not dumped. The dumping margin calculated was minus 7.5 percent.

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22 Ss 269TACB(2)(a).

23 Ss 269TACB(2)(a).

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## 6.10.5 Germany

### **Egger Sägewerk Brilon GmbH**

#### Normal value

Customs and Border Protection considered that certain sales of structural timber by Egger Sägewerk Brilon GmbH in Germany were like goods and comparable to structural timber exported to Australia but these were in insufficient quantities to establish normal values.

Customs and Border Protection constructed a normal value, being the sum of:

- the amount determined to be the cost of production of the goods in Germany;
- on the assumption that the goods, instead of being exported, had been sold for home consumption in the ordinary course of trade in Germany, such amounts determined would be the administrative, selling and general costs associated with the sale and the profit on that sale.

Having regard to Egger Sägewerk Brilon GmbH's sales performance on structural timber and products which could be regarded as same general category of goods, Customs and Border Protection has not included a profit amount in the constructed normal value.

Adjustments were made to the normal values for the following factors to make them properly comparable to the export prices:

- domestic inland freight;
- export inland freight;
- commission;
- handling and other charges; and
- credit terms.

#### Submission by Stora Enso Group

In a submission dated 16 February 2012, the Stora Enso Group submitted that, in accordance with the legislation, Customs and Border Protection must include a profit amount in the constructed normal value for Egger Sägewerk Brilon GmbH. It recommended the basis for a number of profit margins that could be included in the calculation.

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Having regard to the various profitability assessments of Egger Sägewerk Brilon GmbH in the investigation period, Customs and Border Protection maintains its view that it is not appropriate to include a profit margin in the constructed normal value.

## Dumping margin

Customs and Border Protection calculated a dumping margin for structural timber exported to Australia by Egger Sägewerk Brilon GmbH over the investigation period based upon a comparison of the quarterly weighted average normal values and export prices<sup>24</sup>.

The calculations showed the goods were not dumped. The dumping margin calculated was minus 4.4 percent.

## **Ilim Timber**

### Normal value

Customs and Border Protection found that Ilim Timber made sales of 'construction timber' in Germany but that it was not possible to adjust the selling prices of these to fairly compare with export prices.

Customs and Border Protection constructed a normal value, being the sum of:

- the amount determined to be the cost of production of the goods in Germany; and
- on the assumption that the goods, instead of being exported, had been sold for home consumption in the ordinary course of trade in Germany, such amounts determined would be the administrative, selling and general costs associated with the sale and the profit on that sale.

An amount of profit was included in the constructed normal value based on that achieved on the sale of construction timber by Ilim Timber in Germany.

No adjustments were considered necessary to make the constructed normal value comparable with export prices.

### Submission by Ilim Timber

In a submission dated 22 February 2012, Ilim Timber claimed that:

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<sup>24</sup> Ss 269TACB(2)(a).

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- a more appropriate profit should be determined for the purposes of the constructed normal value than the one originally used by Customs and Border Protection; and
- an adjustment should be made to account for certain costs accrued by one entity within the Ilim Timber Group which purportedly related to services provided to another entity.

Ilim Timber claimed that Customs and Border Protection had used the profit margin for a premium spruce construction timber that had a higher profit margin than almost any other product sold by Ilim Timber and that this was not a fair comparison compared to the products exported to Australia.

Ilim Timber proposed that the profit margin should be based on its total construction timber sales in Germany. As an alternative, Ilim Timber proposed a percentage that it considered would be a fair and reasonable profit margin taking into account:

- the difficult business trading conditions in Germany;
- the fact that Ilim Timber is a start up company;
- that the timber industry as a whole is a high-volume low-margin business;
- that some products are more profitably than others;
- that current German borrowing costs are approximately 2 percent per annum; and
- that the cost to make and sell calculation already included interest funding costs.

Customs and Border Protection has been unable to fully consider Ilim Timber's submission on an appropriate profit level in the time available and will do so in the process of considering submissions to the SEF.

In respect of the reallocation of costs, Ilim Timber stated that certain costs incurred by HWN Holz Werke Nord GmbH and which were included in the constructed normal value actually related to log re-sorting services provided for the related mill, Ilim Nordic Timber GmbH & Co.KG. Accounting transactions to effect the reallocation of the costs to the appropriate parties had not been undertaken prior to the visit by Customs and Border Protection and was only done at the end of 2011.

Ilim Timber provided a letter from an accounting firm to support the claim that a charge for re-sorting services was made by HWN Holz Werke Nord GmbH on Ilim Nordic Timber GmbH & Co.KG in the accounts for 2011.

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Customs and Border Protection has considered the claims made by Ilim Timber in respect of the reallocation of costs but has decided that the information available does not support the amendment of the costs as verified during the exporter visit. The investigation team that visited Ilim Timber spent a considerable amount of time verifying the costs of production submitted by the company. The issue of a reallocation of costs was not raised until 24 January 2012, well after the visit which occurred in late November/early December 2011.

Customs and Border Protection considers that by not raising the issue during the verification phase, Ilim Timber has denied it the opportunity to be satisfied that the adjustment to the costs is appropriate and warranted. While the letter from the accountants adds weight to the claim, it does not provide the level of evidence and understanding that Customs and Border considers would be necessary to accept the significant adjustment to the costs as proposed by Ilim Timber.

## Dumping margin

Customs and Border Protection calculated a dumping margin for structural timber exported to Australia by Ilim Timber over the investigation period based upon a comparison of the quarterly weighted average normal values and export prices<sup>25</sup>.

The calculations showed the goods were dumped. The dumping margin calculated was positive 15.7 percent.

## **6.10.6 Lithuania**

### **Stora Enso Lietuva UAB**

#### Normal value

Customs and Border Protection found that Stora Enso Lietuva UAB made sales of 'construction timber' in Lithuania but that it was not possible to adjust the selling prices of these to fairly compare with export prices.

Customs and Border Protection constructed a normal value, being the sum of:

- the amount determined to be the cost of production of the goods in Lithuania; and
- on the assumption that the goods, instead of being exported, had been sold for home consumption in the ordinary course of trade in Lithuania, such amounts determined would be the administrative, selling and general costs associated with the sale and the profit on that sale.

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<sup>25</sup> Ss 269TACB(2)(a).



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An amount of profit was included based on the profit achieved by Stora Enso Lietuva UAB on sales of like goods considered to be comparable to the goods exported to Australia.

Adjustments to the normal value were made for differences in domestic and export credit terms.

## Dumping margin

Customs and Border Protection calculated a dumping margin for structural timber exported to Australia by Stora Enso Lietuva UAB over the investigation period based upon a comparison of the quarterly weighted average normal values and export prices<sup>26</sup>.

The calculations showed the goods were not dumped. The dumping margin calculated was minus 20.7 percent.

### 6.10.7 Sweden

#### Stora Enso Timber AB

##### Normal value

Customs and Border Protection found that Stora Enso Timber AB made sales of 'construction timber' in Sweden but that these were in low volumes and therefore unsuitable for establishing normal values.

Customs and Border Protection constructed a normal value, being the sum of:

- the amount determined to be the cost of production of the goods in Sweden;
- on the assumption that the goods, instead of being exported, had been sold for home consumption in the ordinary course of trade in Sweden, such amounts determined would be the administrative, selling and general costs associated with the sale and the profit on that sale.

In the absence of a suitable group of sales to establish an appropriate profit margin, an amount of profit has been included based on the Stora Enso Group's published profit rate.

Adjustments to the normal value were made for differences in domestic and export credit terms.

## Dumping margin

<sup>26</sup> Ss 269T ACB(2)(a).

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Customs and Border Protection calculated a dumping margin for structural timber No. 63 exported to Australia by Stora Enso Timber AB over the investigation period based upon a comparison of the quarterly weighted average normal values and export prices<sup>27</sup>.

The calculations showed the goods were not dumped. The dumping margin calculated was minus 9.5 percent.

## 6.10.8 USA

### **Vaagen Bros. Lumber, Inc**

#### Normal value

Customs and Border Protection found that Vaagen Bros. Lumber, Inc made sales of MSR grade structural timber on the domestic market that had comparable strength ratings and appearance similar to structural timber it exported to Australia. It found that there was a sufficient volume of domestic sales made in the ordinary course of trade and in arms length transactions for the purposes of establishing normal values.

Adjustments to the normal value were made for differences in domestic and export credit terms and for additional drying/surfacing/packaging costs associated with the exported goods.

#### Dumping margin

Customs and Border Protection calculated a dumping margin for structural timber exported to Australia by Vaagen Bros. Lumber, Inc over the investigation period based upon a comparison of the quarterly weighted average normal values and export prices<sup>28</sup>.

The calculations showed the goods were not dumped. The dumping margin calculated was minus 9 percent.

## **6.11. Volume of dumped goods**

The volume of dumped goods exported from Germany by Ilim Timber is not negligible<sup>29</sup>. The volume of structural timber exports to Australia from Germany in the investigation period that were not investigated is insignificant.

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<sup>27</sup> Ss 269TACB(2)(a).

<sup>28</sup> Ss 269TACB(2)(a).

<sup>29</sup> As defined in subsection 269TDA(3)

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For all of the nominated countries other than Germany, the balance of exports to Australia (excluding those volumes investigated and found to be undumped) is less than 3 percent of the total Australian import volume and is therefore negligible.

The aggregated volume of goods not investigated (and therefore potentially dumped) from each of these countries is less than 7 percent of the total Australian import volume and is also negligible on this measure.

The calculation of negligible volumes is at **confidential appendix 3**.

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## 7. ECONOMIC CONDITION OF THE INDUSTRY

### 7.1. Preliminary findings

The Australian industry producing structural timber has suffered injury in the form of:

- reduced sales volume;
- reduced market share;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced production volume;
- reduced revenue;
- reduced employment;
- underutilised production capacity;
- deteriorating returns on investment; and
- reduced ability to attract investment.

The causes of this injury are discussed in the next section of this report.

### 7.2. Introduction

This section reports on the economic condition of the Australian industry and provides an assessment as to whether the industry has suffered injury.

As noted above, the Australian structural timber industry consists of the following eight manufacturers:

- BSG (co-applicant);
- Hyne (co-applicant);
- Gunns (co-applicant);
- AKD Softwoods;
- ATP;
- Wespine;
- D & R Henderson; and
- Boral Timber.

It is estimated that the three applicant companies represent approximately 80 percent of the volume of sales made by Australian manufacturers in the investigation period.

The analysis of injury to the Australian industry is based on the following information provided by the Australian industry members:

- verified information from each of the three applicants (reports available on the public file);

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- unverified sales volume information submitted by the five other companies that make up the Australian structural timber industry.

A summary of data on which this assessment is based is at **confidential appendix 4**.

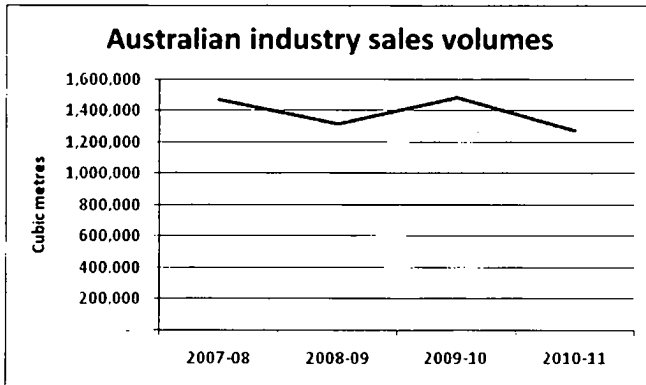
## 7.3. Commencement of injury

The applicants claimed that injury from the allegedly dumped imports commenced in the 2009/10 financial year.

## 7.4. Volume trends

### 7.4.1 Sales volumes

The following chart illustrates the Australian industry's annual sales volumes since 2007/08.

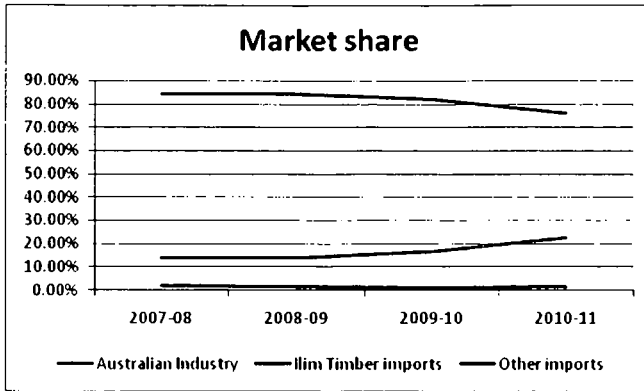


The Australian industry's sales volumes declined by 10 percent in 2008/09 before recovering in 2009/10 to be at similar levels to 2007/08. Sales volumes again declined in 2010/11.

### 7.4.2 Market share

The following chart shows changes in percentage market share by the Australian industry, imports from sources found to be dumped in the investigation period (Ilim Timber imports) and other imports.

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The Australian industry's market share has declined from around 85 percent in 2007/08 and 2008/09 to 76 percent in 2010/11. Imports of dumped goods in the investigation period were less than 2 percent of the market and have not shown any growth over the injury analysis period. Undumped imports from various sources have increased their market share from 14 percent in 2007/08 to 23 percent in 2010/11.

The volume of structural timber exports to Australia from Germany in the investigation period that were not investigated is insignificant.

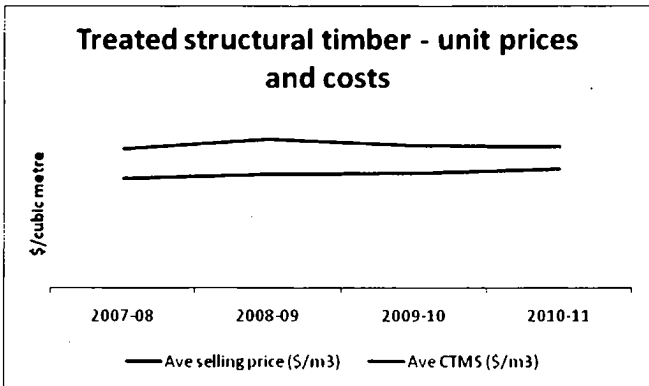
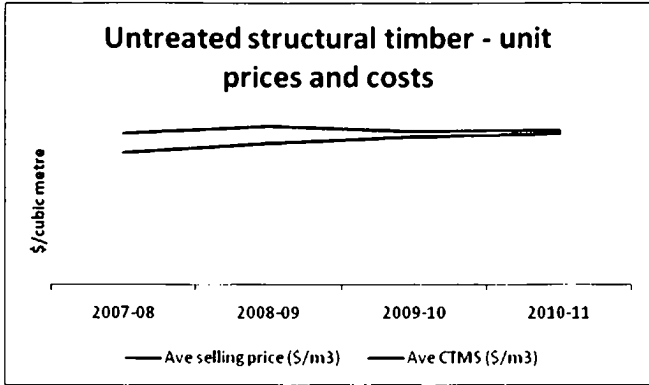
## 7.5. Price and cost trends

The following price and cost trend analysis is based on verified data from the three applicants, who together represented 80 percent of sales in the Australian market by volume in 2010/11.

The following charts depict movements in average prices and costs to make and sell (CTMS) per cubic metre of structural timber sold by the applicants in the injury analysis period.

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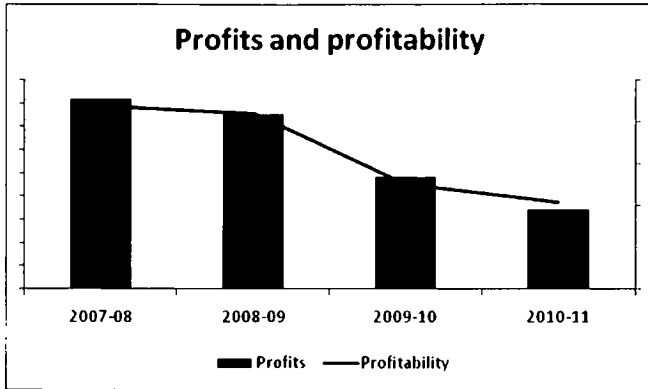
The unit CTMS structural timber increased marginally each year between 2007/08 and 2010/11. Prices for both treated and untreated timber increased in 2008/09 but fell in 2009/10 and remained stable in 2010/11 despite increasing average unit costs.

### 7.6. Profits and profitability

The following profits and profitability analysis also related to verified data from the three applicants.

The following chart depicts movements in total profits and profitability of the applicants over the injury analysis period.

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The applicants' profits and profitability have declined each year over the injury analysis period. Total profits and profitability were significantly lower in 2010/11 than in 2007/08.

### 7.7. Other economic factors

Customs and Border Protection examined data relating to other economic factors for the three applicants to see whether they supported or detracted from the volume, price and profitability indicators.

#### 7.7.1 BSG (CarterHoltHarvey)

Customs and Border Protection examination of other economic factors found that BSG had suffered injury in the form of reduced revenue, reduced employment, an underutilisation of production capacity and deteriorating returns on investment.

#### 7.7.2 Hyne

Hyne's revenue, capital investment and research and development expenses all fell in 2010/11. Capacity utilisation fell significantly in 2010/11 and employment levels dropped due to redundancies in June 2011.

#### 7.7.3 Gunns

Other economic factors for Gunns reflected an increase in assets, capital investment and revenue, largely associated with the purchase of the Bell Bay mill in 2010. Employment declined in 2010/11 compared with levels in previous years in response to lower manning levels associated with the technology employed at the Bell Bay site.

Other economic factors did not appear to support or detract from Gunns' injury claims.



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### 7.8. Conclusion on economic condition of the industry

The Australian industry producing structural timber has suffered a loss of sales volumes in 2008/09 and again in 2010/11. The industry has lost a significant amount of market share, both in a rising market in 2009/10 and in a declining market in 2010/11.

The applicants' weighted average selling prices declined in 2009/10 and remained relatively stable in 2010/11 while costs increased year on year.

Price suppression and price depression in 2009/10 led to significantly lower profits and profitability for the applicants. These factors combined with lower volumes in 2010/11 to further negatively impact on profits and profitability.

Other relevant economic factors support the conclusion that the applicants have suffered material injury over the period examined. In view of the applicants' substantial share of Australian production, it is reasonable to conclude that the Australian industry has suffered material injury.

The following chapter examines the causes of that injury.

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## 8. HAS DUMPING CAUSED MATERIAL INJURY?

### 8.1. Preliminary findings

Customs and Border Protection found that there has been dumping of some or all of the structural timber exported to Australia from Germany but that the injury, if any, to the Australian industry that has been or may be caused by that dumping is negligible.

### 8.2. Introduction

This section examines whether dumped imports of structural timber have caused material injury to the Australian industry.

### 8.3. Dumping

Exports of structural timber from Ilim Timber of Germany in the investigation period were dumped with a dumping margin of 15.7 percent of the weighted average export price. The volume of structural timber exports to Australia from Germany in the investigation period that were not investigated is insignificant.

### 8.4. Volume effects

#### 8.4.1. Loss of sales volume

The Australian industry lost sales volume in 2008/09 compared to the previous year. The applicants attribute the losses in 2008/09 to the housing downturn during the Global Financial Crisis.

After recovering in 2009/10, the local manufacturers again lost sales volume in 2010/11. Although the total Australian market was declining due to another housing downturn, part of this loss of volumes appears to be attributable to the increase in imports from undumped sources. The evidence does not suggest that the dumped imports from Germany, which have not increased in volume over the period examined, caused the industry's loss of sales volume in 2010/11.

#### 8.4.2. Loss of market share

The Australian industry has not lost market share to the dumped imports from Germany. Its loss of market share has been caused by undumped imports from other sources.

### 8.5. Price effects

#### 8.5.1 Undercutting analysis

Structural timber selling prices vary according to the grade, length and cross-section and whether the timber has been treated or not. Customs and Border Protection compared

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weighted average selling prices in the Australian market by the importer of dumped timber from Germany with sales of the applicants. The comparison was done on sales of the most popular structural timber product, 90mm x 35mm untreated MGP10. Comparisons were done for 2.4, 2.7, 4.8 and 5.4 metre lengths.

The analysis shows that sales by the importer of dumped goods regularly undercut the applicants' sales prices but that the prices of the dumped goods were similar to and quite often above the prices of undumped imports.

The undercutting analysis is at **confidential appendix 5**.

## 8.5.2 Price depression and suppression

The applicants suffered price depression and suppression in 2010/11. There is no apparent link between the relatively small quantity of German product and the injury suffered by the industry. The more likely conclusion is that undumped imports, aided by the appreciation in the Australian dollar, have gained market share and in doing so have restricted price increases by the Australian manufacturers to compensate for cost increases.

## 8.6. Profit effects

### 8.6.1. Reduced profits and profitability

As with the volume and price injury discussed above, it appears that the impact of undumped imports that have gained market share in recent years has been the main cause of profit and profitability injury suffered by the Australian industry.

## 8.7. Other possible causes of injury

### 8.7.1. Global financial crisis

A decline in the Australian market for structural timber in 2008/09 appears to be associated with a housing downturn arising out of the Global Financial Crisis (GFC). The applicants attributed this volume injury to the impact of the GFC.

### 8.7.2. Exchange rates

From 2007/08 to 2010/11, the Australian dollar appreciated against the Canadian dollar, US dollar and Euro by 9 percent, 10 percent and 19 percent respectively. This appreciation has had the effect of significantly increasing the competitiveness of the undumped imports in the Australian market.

### 8.7.3. Undumped imports

Undumped imports of structural timber increased in volume by approximately 55 percent between 2007/08 to 2010/11 and their market share increased from 14 percent to 23

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percent. As noted, the appreciation of the Australian dollar against major currencies has increased the competitiveness of these imports.

### 8.8. Submission by importer – Tilling Timber Pty Limited

In the investigation period, Tilling Timber was the sole importer of structural timber exported to Australia by Ilim Timber. In a submission dated 17 February 2012, Tilling Timber claimed that its imports were tailored to satisfy local market demand for the sales of specific grades and sizes which local mills find less attractive to produce from a production recovery basis.

Tilling Timber gave examples of what it claimed to be the supply of certain niche products to particular sectors of the Australian market. Tilling Timber stated that given the limited quantity of structural timber imported and allowing for the unique nature of the products supplied, it was difficult to envisage the basis for a finding that material injury to the Australian industry was being caused by these activities.

An examination of Tilling Timber's sales data supports its claim concerning supplying a significant proportion of its imports to particular sectors of the market.

### 8.9. Summary – Causal link

Customs and Border Protection considers that the evidence set out in this section provides sufficient grounds to conclude that the dumping of structural timber exported to Australia from Germany by Ilim Timber has not caused material injury to the Australian industry producing like goods.

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**9. APPENDICES**

Confidential appendix 1	Australian market
Confidential appendix 2	Dumping margin calculations
Confidential appendix 3	Calculation of negligible volumes
Confidential appendix 4	Summary of injury data
Confidential appendix 5	Price undercutting analysis