



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

PUBLIC FILE
FOLIO
No: //0.....

R E P O R T

INTERNATIONAL TRADE REMEDIES BRANCH

CONSIDERATION REPORT NO. 176

APPLICATION FOR A DUMPING DUTY NOTICE

CERTAIN STRUCTURAL TIMBER

EXPORTED 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**

September 2011

1 Contents

1 Contents 2

2 Abbreviations & shortened forms 3

3 Summary and recommendations 4

 3.1 Recommendations 4

 3.2 Application of law to facts 4

4 Background 6

 4.1 Application 6

 4.2 Consideration of the application 6

5 Compliance with section 269TB(4) 8

 5.1 Legislative framework 8

 5.2 Customs and Border Protection assessment 8

6 Is there an Australian industry in respect of like goods? 10

 6.1 Legislative framework 10

 6.2 The goods the subject of the application 10

 6.3 Locally produced like goods 10

 6.4 Manufactured in Australia 11

 6.5 Australian market 12

 6.6 Australian industry information 14

7 Reasonable grounds – dumping 16

 7.1 Legislative framework 16

 7.2 General 16

 7.3 Export prices 16

 7.4 Normal values 18

 7.5 Dumping margins 22

8 Reasonable grounds – material injury caused by dumped imports 24

 8.1 Legislative framework 24

 8.2 General 24

 8.3 Volume effects 24

 8.4 Price effects 26

 8.5 Profit effects 27

 8.6 Other injury factors 28

 8.7 Link between injury and dumped imports 29

 8.8 Conclusion on material injury caused by dumped imports 32

9 Conclusion 35

2 Abbreviations & shortened forms

ABS	Australian Bureau of Statistics
ACDN	Australian Customs Dumping Notice
BSG	Building Supplies Group Holding Pty Ltd
CEO	Chief Executive Officer
CHH	Carter Holt Harvey Woodproducts Australia Pty Ltd
Customs and Border Protection	Australian Customs and Border Protection Service
FOB	free-on board
GFC	Global Financial Crisis
Gunns	Gunns Limited
Hyne	Hyne & Sons Pty Ltd
m ³	cubic metre
OSB	oriented strand board
OSL	oriented strand lumber
relevant Minister	in this case the Attorney-General

Structural timber

Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

3 Summary and recommendations

This report provides the results of Australian Customs and Border Protection Service's (Customs and Border Protection) consideration of an application for the publication of a dumping duty notice on certain structural timber¹ (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 (USA).

3.1 Recommendations

Customs and Border Protection recommends that the Chief Executive Officer of Customs and Border Protection (CEO) decide not to reject the application.

If the CEO accepts this recommendation, to give effect to that decision, the CEO must publish the attached notice at **Appendix A** indicating that Customs and Border Protection will inquire into whether the grounds exist to publish a dumping duty notice.

3.2 Application of law to facts

Division 2 of Part XVB of the *Customs Act 1901*² sets out procedures for considering an application for a dumping duty notice.

3.2.1 The role of the International Trade Remedies Branch

The International Trade Remedies Branch is responsible for preparing a report for the CEO examining an application for a dumping duty notice.

In this report, the following matters are to be considered in relation to the application:

- whether the application complies with subsection 269TB(4);
- whether there is, or is likely to be established, an Australian industry in respect of like goods; and
- whether there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application.

3.2.2 The role of the CEO of Customs and Border Protection

The Division empowers the CEO, after having regard to the International Trade Remedies Branch report, to reject or not reject an application for the publication of a dumping duty notice.

¹ Refer to the full description of the goods in section 6.2 of this report.

² All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901*.

If the CEO decides not to reject the application, the CEO must give public notice of the decision providing details of the investigation.

The CEO's powers have been delegated to certain officers of the International Trade Remedies Branch.

3.2.3 Findings and conclusions

Customs and Border Protection has examined the application and is satisfied that:

- the application complies with the requirements of subsection 269TB(4) (the reasons for being satisfied are set out in section 5 of this report);
- there is an Australian industry in respect of like goods (as set out in section 6 of this report); and
- there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application (as set out in sections 7 and 8 of this report).

4 Background

4.1 Application

On 5 August 2011, Building Supplies Group Holding Pty Ltd (BSG), Hyne & Sons Pty Ltd (Hyne) and Gunns Limited (Gunns) lodged an application requesting that the relevant Minister (in this case the Attorney-General³) publish a dumping duty notice in respect of structural timber exported to Australia from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and the USA.

On 18 and 24 August 2011, the applicants provided further information in support of their application. As a result, Customs and Border Protection restarted the 20 day period for considering the application.

The applicants allege that the Australian industry has suffered material injury caused by structural timber exported to Australia from the nominated countries at dumped prices. The applicants claim that material injury commenced in the 2009/10 financial year⁴ and that the industry had been injured through:

- 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.

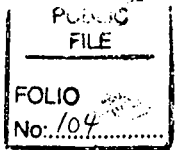
4.2 Consideration of the application

Under s. 269TC(1) of the Act, the CEO must examine the application and within 20 days of lodgement decide whether or not to reject the application. This decision must be made no later than 13 September 2011.

Subsection 269TC(1) specifies that the CEO shall reject the application if he/she is not satisfied that:

³ The Minister for Home Affairs may have a conflict of interest in respect to the wood product industry and therefore this matter will be dealt with by the Attorney-General.

⁴ References to financial years are the year ending 30 June unless otherwise specified.



- the application complies with s 269TB(4); or
- there is, or is likely to be established, an Australian industry in respect of like goods; or
- there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application.

The above matters are examined in the following sections of this report.

Structural timber

Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

5 Compliance with section 269TB(4)

Customs and Border Protection is satisfied that the application complies with the requirements of section 269TB(4).

5.1 Legislative framework

Subsection 269TB(4) requires that the application must be in writing, be in an approved form, contain such information as the form requires, be signed in the manner indicated by the form and be supported by a sufficient part of the Australian industry.

5.2 Customs and Border Protection assessment

5.2.1 Approved form

The application is in writing, is in an approved form, contains such information as the form requires (as discussed in the following sections) and is signed in the manner indicated in the form.

The applicant submitted confidential and public record versions of the application along with numerous appendices and attachments. Customs and Border Protection considers that the public record version of the application contains sufficient detail to allow a reasonable understanding of the substance of the information.

5.2.2 Supported by Australian industry

An application is taken to be supported by a sufficient part of the Australian industry if Customs and Border Protection is satisfied the persons who produce or manufacture like goods in Australia and who support the application:

- account for more than 50% of the total production or manufacture of like goods by that proportion of the Australian industry that has expressed either support for or opposition to, the application; and
- account for not less than 25% of the total production or manufacture of like goods in Australia.

The application identified the following Australian producers of structural timber:

- subsidiaries of BSG:
 - Carter Holt Harvey Woodproducts Australia Pty Ltd (CHH);
 - Carter Holt Harvey Woodproducts (Southern Region) Pty Limited;
 - Carter Hold Harvey Woodproducts (Central and Northern Regions) Pty Limited;
- Hyne;
- Gunns;
- AKD Softwoods;
- Allied Timber Products;
- Wespine Industries;

Structural timber

Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

- D and R Henderson; and
- Boral Timber Pty Ltd.

BSG, Hyne and Gunns are the applicants. Data provided in the application indicates that BSG, Hyne and Gunns account for the majority of Australian production of structural timber. Based on the evidence provided, Customs and Border Protection considers the application is supported by a sufficient part of the Australian industry.

5.2.3 Conclusion – Compliance with s. 269TB(4)

Based on the information submitted by the applicant, Customs and Border Protection considers that the application complies with s. 269TB(4).

6 Is there an Australian industry in respect of like goods?

Customs and Border Protection is satisfied that there is an Australian industry in respect of like goods.

6.1 Legislative framework

Subsection 269TC(1) requires that the CEO must reject an application for a dumping duty notice if, inter alia, he is not satisfied that there is, or is likely to be established, an Australian industry in respect of like goods.

6.2 The goods the subject of the application

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 120cm²; 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.

6.2.1 Tariff classification

The application states that the goods are classified to the following tariff subheadings and statistical codes of Schedule 3 to the *Customs Tariff Act 1995*:

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

Based on information provided in the application, Customs and Border Protection's Trade Services Branch confirmed that the goods are correctly classified to these tariff subheadings.

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

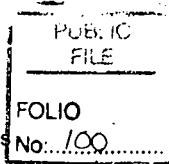
No tariff concession orders apply to the goods.

6.3 Locally produced like goods

Subsection 269T(1) 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

Structural timber

Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA



under consideration, have characteristics closely resembling those of the goods under consideration'.

6.3.1 Applicants' claims

The applicants claim that structural timber manufactured by the Australian industry possesses characteristics closely resembling the goods imported from the nominated countries. They claim that imported and locally produced structural timber are:

- classified to the same tariff sub-headings;
- made from similar raw materials;
- manufactured using similar manufacturing processes and techniques;
- sold into and compete in the same market segments and are sold through the same distribution channels;
- are interchangeable in identified end-use applications; and
- are priced to compete directly with each other.

6.3.2 Customs and Border Protection's assessment

Customs and Border Protection has examined the evidence presented in the application and considers the Australian industry produces like goods to the goods the subject of the application.

The applicants have demonstrated that:

- the primary physical characteristics of imported and locally produced structural timber are similar;
- the imported and locally produced structural timber are manufactured in a similar manner;
- the imported and locally produced structural timber are commercially alike as they are sold through the same distribution channels to common end users; and
- the imported and locally produced structural timber is functionally alike as they have the same end-uses.

6.4 Manufactured in Australia

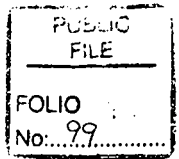
Subsections 269T(2) and 269T(3) specify that for goods to be regarded as being produced in Australia, they must be wholly or partly manufactured in Australia. In order for the goods to be considered as partly manufactured in Australia, at least one substantial process in the manufacture of the goods must be carried out in Australia.

6.4.1 Australian industry

Details of the applicants' manufacturing sites are as follows:

Industry member	Production sites
BSG	Mt Gambier, South Australia (2 sites) Morwell, Victoria Caboolture, Queensland Tumut, New South Wales

Structural timber
Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA



Hyne	Maryborough, Queensland Tumbarumba, New South Wales
Gunns	Tarpeena, South Australia Bell Bay, Tasmania

6.4.2 Manufacturing process

The applicants gave the following brief description of the manufacturing process. Timber is harvested and graded to permit log optimisation. Following sawing of the timber according to size, the timber is transferred to a kiln drying process, thereafter dressing and grading takes place. Untreated timber is then passed to the warehouse or is delivered directly to the customer. Treated timber is subjected to the termite treatment process and thereafter is transferred to the warehouse or delivered to the customer.

6.4.3 Conclusion

Based on the above description of the manufacturing process, Customs and Border Protection is satisfied that there is at least one substantial process of manufacture performed in Australia and, therefore, that the goods may be taken to have been produced in Australia.

6.5 Australian market

6.5.1 Background

The applicants state that 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.

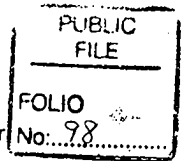
The main source of demand for structural timber within Australia is residential detached housing activity. According to the applicants, the building industry accounts for approximately 70% of sawn timber usage in Australia. The industry is therefore subject to cyclical fluctuations of housing construction. The application includes charts of housing approvals and commencements, which the applicants say is a good guide to demand for structural timber with a lag of approximately three months.

Home builders typically use timber for house construction whether through pre-fabricated wall frames or roof trusses, or through on-site 'stick built' construction. The application includes a table from a research and forecasting report showing that softwood is and is expected to remain the predominant material in detached housing construction in Australia.

6.5.2 Marketing and distribution

The applicants state that 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.

Structural timber
Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA



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.

The application states that, in recent times, importers with direct affiliations with overseas suppliers have sourced structural timber and established their own distribution chain, selling directly into the same markets as the Australian producers. This has entailed importers investing in infrastructure (mainly warehousing) in most mainland states.

6.5.3 Alternative products

The applicants state that the main competition within the structural category is steel. An alternative to structural timber is light gauge steel framing used in conjunction with pre-cast concrete panels. There are also some instances where solid and laminated hardwoods compete against the properties of structural softwood.

The application also lists the following as potential substitute products:

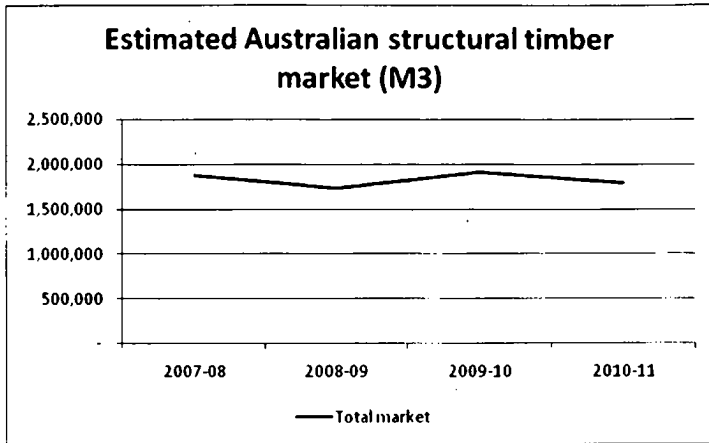
- aluminium;
- laminated veneer lumber;
- I-beams;
- reconstituted wood panels;
- oriented strand board (OSB);
- oriented strand lumber (OSL);
- concrete;
- plastics.

6.5.4 Market size

The applicants state that the Australian market for structural timber in 2010/11 was approximately 1.7 million cubic metres (m³).

Customs and Border Protection's estimate of movements in the Australian market for structural timber since 2007-08 based on import data and information on sales by Australian manufacturers contained in the application is shown in the following chart.

PROBING
FILE
FOLIO
No: 97



6.6 Australian industry information

6.6.1 Australian industry's sales

Each of the applicants provided information including a summary of domestic and export sales volumes, revenue, discounts and rebates as required in appendices A2, A3, A5 and A6. The applicants provided consolidated appendices A2 and A6 and separate appendices A3 and A5 for each applicant. Customs and Border Protection examined the detail in, and link between, these appendices, and considers they are reliable for the purposes of assessing the economic condition of the industry for the purposes of this report.

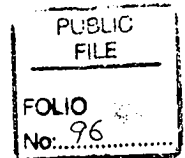
As required by Appendix A4, each applicant included a detailed listing of domestic sales of structural timber. BSG and Hyne provided the information for the 2010-11 financial year. Gunns provided the information for the period 1 July 2010 to 31 March 2011 for its highest selling structural timber size.

6.6.2 General accounting/administration information

The applicants provided charts of accounts and audited financial reports for relevant periods. They also provided details of general accounting and administration information. BSG's financial year is from January to December while Hyne and Gunns operate on a July to June financial year.

6.6.3 Cost information

Each applicant completed an appendix A6 for domestic sales. According to the application information, only an insignificant quantity of the applicants' production was exported. The information provided included production and sales volumes, manufacturing costs, selling, distribution and administrative expenses and sales



volumes from 2007/08 to 2010/11. The applicants also provided separate spreadsheets for treated and untreated timber.

Customs and Border Protection examined the information provided and the link between other appendices and considers the information reliable for the purposes of assessing the economic condition of the industry.

6.6.4 Other economic factors

BSG and Hyne each completed appendix A7 showing movements in assets, capital investment, research and development expenses, return on investment, capacity, capacity utilisation, employment, productivity, stocks, cash flow measures and wages. The application included consolidated indices of revenue variations, return on investment, employment numbers and stock levels.

6.6.5 Conclusion – Australian industry

Based on the information in the application, Customs and Border Protection is satisfied that there is an Australian industry producing like goods to the goods the subject of the application and that the information contained in the application is sufficient for the purposes of a preliminary analysis of the economic condition of the industry since 2007/08.

7 Reasonable grounds – dumping

Customs and Border Protection is satisfied that structural timber appears to have been exported to Australia from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and the USA at dumped prices.

7.1 Legislative framework

Subsection 269TC(1) requires that the CEO must reject an application for a dumping duty notice if, inter alia, he is not satisfied that there appear to be reasonable grounds for the publication of a dumping duty notice. Under section 269TG, one of the matters that the relevant Minister must be satisfied of to publish a notice is that the export price of goods that have been exported to Australia is less than the normal value of those goods.

7.2 General

The applicants presented export price and normal value information for each of the nominated countries for the quarters ending June 2010, September 2010, December 2010 and March 2011. They also presented information on producers of the goods exported to Australia and importers in Australia.

7.3 Export prices

The applicants obtained published import data for structural timber from the Australian Bureau of Statistics (ABS) for the tariff classifications relevant to the goods. The applicants' preference is not to rely on the ABS data, which it considers to be unreliable, to estimate export prices for Austria, the Czech Republic, Estonia, Lithuania and Sweden for the following reasons:

- the majority of exports are by parties affiliated to importers in Australia and this relationship is likely to affect the export price between them;
- the selling prices of imports in the Australian market suggest that there may be reimbursements by exporters to importers to support recent increasing import volumes; and
- the tariff classifications of the imported goods are likely to include small volumes of goods that are not the subject of the application for dumping measures.

The applicants have used ABS data to estimate export prices for Germany, Canada and the USA, countries where the issue of related exporters/importers is thought not to arise.

7.3.1 Methodology for deductive export prices

The applicants have calculated weighted average deductive export prices for structural timber imported from Austria, the Czech Republic, Estonia, Lithuania and Sweden. They calculated free on board (FOB) export prices using prevailing selling

Structural timber
Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA



prices obtained from competitive quotations offered by importers at the wholesale/distributor level of trade on the Australian market as well as market information obtained by the applicants, less appropriate deductions. The applicants used the following deductions in calculating FOB prices:

- a rate of profit of 6% for the importer;
- delivery charges based on Australian mill distribution costs;
- warehousing cost based on the applicants' warehousing costs and quantity dispatched in the 2011 financial year;
- selling, general and administrative costs of 7% of the selling price;
- freight from wharf to store of \$9.32 per m³;
- duty of 5%;
- ocean freight based on the difference between the cost, insurance and freight (CIF) and FOB prices published in ABS data for each of the nominated countries; and
- estimates for import clearance and handling charges.

Customs and Border Protection considers that these estimates are reasonable. It notes that estimates for import clearance and handling charges were based on an invoice from a freight company and on amounts based on one of the applicants' import costs. The applicants estimated a profit level of 6%. They consider this is the approximate level of profit reported by the Stora Enso group which dominates structural timber production in Europe and have used the same profit rate in its normal value cost constructions (see further below).

7.3.2 ABS export prices

Customs and Border Protection has compared the export prices for Canada, Germany and the USA estimated using ABS data with export prices taken from its import database (where the descriptions given to imports have allowed the removal of goods thought not to be the goods the subject of the application). Customs and Border Protection considers that the estimates provided by the applicants appear to be reasonable.

7.3.3 Import volumes

From the information available from Customs and Border Protection's import database, it appears that each of the nominated countries represents more than 3% of the total import volume of structural timber in 2010/11 and that, therefore, they are not in negligible volumes as defined in section 269TDA.

7.3.4 Summary

Article 5.2 of the World Trade Organisation Anti-Dumping Agreement states that an application shall include evidence of dumping. It states that simple assertion, unsubstantiated by relevant evidence, cannot be considered sufficient to meet this requirement, but such information must be reasonably available to the applicant.

Customs and Border Protection's importer database supports the applicants' view that imports of structural timber from the five countries where a deductive export

Structural timber

Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

price was used is dominated by importers and exporters that appear to be affiliated. Further, Customs and Border Protection accepts the reasons put forward by the applicants to use a deductive export prices for these countries. Customs and Border Protection also acknowledges that the deductive export price might be more accurate due to the inclusion of some non-subject goods in the import data and the inability to identify treated and untreated product within the relevant tariff classifications.

Customs and Border Protection considers that, based on the information submitted in the application, the amounts used by the applicants to estimate selling prices in Australia appear to be reasonable. The applicants have supported their estimates with quotes from Australian importers where relevant.

Customs and Border Protection has examined its import database for the five countries, which showed average export prices that did not, in all cases, accord with the deductive export prices calculated by the applicants. As stated above, the applicants have put forward valid reasons for preferring deductive export prices to prices reported by the ABS for these countries.

The export prices for Canada, Germany and the USA appear to be reasonably reliable, notwithstanding the limitations discussed above, and are based on information that is reasonably available to the applicants.

The applicants' assessment of export prices (in \$A/m³) are summarised in the following table.

Country	Apr-Jun 2010	Jul-Sept 2010	Oct-Dec 2010	Jan-Mar 2011
Austria	\$253	\$237	\$211	\$220
Canada	\$270	\$262	\$247	\$247
Czech Republic	\$260	\$268	\$249	\$225
Estonia	\$268	\$247	\$224	\$234
Germany	\$273	\$281	\$281	\$255
Lithuania	\$224	\$199	\$170	\$178
Sweden	\$255	\$247	\$222	\$236
USA	\$310	\$291	\$296	\$278

7.4 Normal values

The applicants stated that they were unable to obtain pricing information for structural timber sold on the domestic market of any of the nominated countries. They claimed that selling prices in other countries are not published or readily available via industry newsletters or journals. The applicants therefore constructed domestic selling prices based on their estimates of costs and profit in each of the nominated countries.

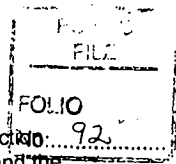
7.4.1 Methodology for constructed normal values

For each of the nominated countries, the applicants provided:

- a cover sheet setting out the principles and assumptions upon which the cost estimates are based;

Structural timber

Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA



- a 'sawmill reference model' with columns showing the detailed cost construction for the calendar year 2009, each quarter of 2010, the calendar year 2010, and the March quarter of 2011;
- a series of worksheets that feed into 'saw mill reference model' relating to components such as log costs and labour rates that vary according to the country.

The applicants state that the cost construction models are based on an efficient sawmill. The applicants made the point that the models are based on independent data wherever possible and have been conservatively framed to avoid overstating the normal values.

The models include actual data in the same format for two CHH sawmills for comparison and to support assumptions in respect of items such as yields at the various stages of the production process. The models also incorporate known information on sawmills in the nominated countries taken from open sources.

The models are used to estimate an Australian dollar price per m³ of untreated structural timber sold in each country of export. The models assume a certain mix of output between the common grades of structural timber (MGP10, MGP12 and F4/F5) and this mix is mirrored in the deductive export price calculations so that they are comparable.

The models incorporate activity based costing for each stage of the structural timber production process – debarking, sawing, drying, planing, and packaging and despatch. Each activity includes labour, other variable costs and depreciation expenses. The key factors in the models are as follows:

Log costs

The applicants have used sawlog prices taken from World Resource Quarterly as the cost of the timber used in production. The applicants provided copies of the World Resource Quarterly for the March quarter 2010 to the March quarter 2011. All of the nominated countries other than Lithuania have quoted conifer sawlog prices. The applicants used Sweden as a surrogate for Lithuanian log prices. The Swedish sawlog prices are the second lowest of the prices for the five nominated countries for which prices are quoted. Even using the lowest prices for logs among the nominated European countries (Estonian log prices), produces an actionable dumping margin.

Customs and Border Protection was able to confirm that the prices from the World Resource Quarterly were used in the model and converted to Australian dollars at appropriate exchange rates. The World Resource Quarterly appears to be a reputable source of pricing for the forestry sector.

Production mix

The cost model for each country assumes the same ratio of output of the following products:

- untreated MGP10;

Structural timber
Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA



- untreated MGP12;
- untreated F4/F5;
- rough sawn kiln dried (RSKD);
- green casing timber.

The applicants stated that these ratios were based on industry knowledge and, if anything, overstated the proportion of structural grade timber that would be derived in the production process. It was evident that the yield of structural timber in the models is significantly higher than the actual Australian manufacturer data provided for comparison.

Sawmill recovery

The sawmill recovery is the quantity of timber remaining after the debarking and sawing processes are undertaken. The models set this recovery at 62.8 percent. The applicants stated that this percentage was estimated based on industry knowledge and was at the top end of what could realistically be achieved. The comparative Australian data supports this.

Kiln and boiler costs

The models estimate the kiln and boiler costs incurred and factor in minor losses in timber volume incurred in the drying process.

Planer mill

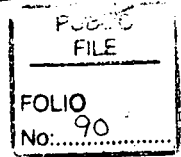
The models estimate the yield for each of the timber products following the planing stage of production. Average recovery from this stage of the production process is estimated to be approximately 80%. Overall recovery from the log input to timber available for sale is just over 50%, which compares favourably with the Australian industry data provided.

Packing and despatch

The models include small amounts for the packing and despatch of the timber products. Where possible, the applicants have estimated the distance from the manufacturing location in the nominated country to the local port and have framed their estimate of in country transport costs accordingly. The costs also include vessel loading charges so that the constructed selling prices are effectively at the FOB point and suitable for comparison with FOB export prices.

Labour costs

Where possible, the applicants have obtained information on the number of employees at prominent sawmills in the nominated countries from open source data. It has estimated the number of employees in each production department based on industry knowledge.



Labour rates were benchmarked from data published by RISI, a reputable information provider for the global forest products industry.

Depreciation

The applicants estimated the book value of the sawmills based on its estimated production capacity and their knowledge of equipment prices. The estimated book value assumes that the sawmill is approximately half way through its useful life. The total estimated book value was apportioned to each of the production areas (debarker, sawmill, kiln dryer and planer) in the same proportions as one of the Australian mills.

The useful life of the equipment was assumed to be the same as that of the example Australian sawmills and the depreciation costs were calculated using the straight line method over the period.

Residues income

The applicants estimated the quantity of bark, woodchips and sawdust produced in the production process based on levels obtained by the example Australian industry timber mills. The revenue from the sale of these products was estimated using the World Resource Quarterly pricing information for these products in the relevant country. As the World Resource Quarterly prices are delivered prices, the applicants adjusted the prices for estimated delivery expenses. The estimated residue income is deducted from the costs of production.

Selling, general and administration expenses

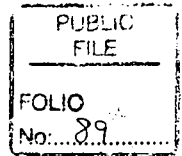
The applicants estimated that, based on its own experience, selling general and administration expenses would conservatively be 5% of selling prices. The applicants used information on the selling prices of imports in Australia to estimate the amount of selling, general and administrative expenses that would be incurred. Although the Australian selling prices are of questionable relevance to calculating selling general and administration expenses in the countries of export, the estimated amount does not appear excessive.

Profit

The applicants estimated a profit level of 6% of the estimated unit cost to make and sell structural timber in each of the nominated countries. They consider this is the approximate level of profit reported by the Stora Enso group which dominates structural timber production in Europe.

7.4.2 Adjustments

The applicants stated that the normal values have been determined at the FOB level (as were export prices). They do not consider that any adjustments are required.



7.4.3 Summary

As noted above, Article 5.2 of the World Trade Organisation Anti-Dumping Agreement states that an application shall include evidence of dumping. It states that simple assertion, unsubstantiated by relevant evidence, cannot be considered sufficient to meet this requirement, but such information must be reasonably available to the applicant.

Customs and Border Protection considers that, based on the information submitted in the application, the amounts used by the applicants to estimate domestic selling prices in the nominated countries appear to be reasonable. The applicants have supported their detailed cost models with information that is reasonably available to them and, where assumptions have been required, have explained the basis for those assumptions. Where appropriate, the applicants have used information from their own production costs, if necessary, adjusted to make them appropriate to their understanding of industry conditions in the nominated countries.

Customs and Border Protection is also satisfied that, based on the information submitted in the application, no adjustments to domestic selling prices are required.

The applicants' assessment of normal values (in \$/m³) are summarised in the following table.

	Apr-Jun 2010	Jul-Sep 2010	Oct-Dec 2010	Jan-Mar 2011
Austria	416	430	428	418
Canada	390	356	370	361
Czech Republic	391	400	420	408
Estonia	290	292	292	285
Germany	427	432	444	420
Lithuania	360	375	387	382
Sweden	316	328	338	334
USA	385	352	336	357

7.5 Dumping margins

The applicants' estimates of dumping margins as a percentage of export prices are summarised in the following table.

	Apr-Jun 2010	Jul-Sep 2010	Oct-Dec 2010	Jan-Mar 2011
Austria	64	81	103	90
Canada	44	36	50	46
Czech Republic	50	49	69	81
Estonia	8	18	30	22
Germany	56	54	58	65
Lithuania	74	88	128	115
Sweden	24	33	52	41
USA	24	21	13	28

Customs and Border Protection is satisfied that, based on the information submitted in the application, the applicants have demonstrated that there appear to be

Structural timber
Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

PUBLIC
FILE

FOLIO

No. 88

reasonable grounds for concluding that structural timber has been exported to Australia from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and the USA at dumped prices.

PUBLIC
FILE
FOLIO
87

8 Reasonable grounds – material injury caused by dumped imports

Customs and Border Protection is satisfied that exports to Australia of structural timber from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and the USA at allegedly dumped prices appear to have caused material injury to the Australian industry.

8.1 Legislative framework

Subsection 269TC(1) requires that the CEO must reject an application for a dumping duty notice if, inter alia, he is not satisfied that there appear to be reasonable grounds for the publication of a dumping duty notice. Under section 269TG, one of the matters that the relevant Minister must be satisfied of to publish a dumping duty notice is that because of the dumping, material injury has been or is being caused or is threatened to the Australian industry producing like goods.

8.2 General

The following injury analysis is based on the financial information submitted by the applicants and import information from Customs and Border Protection's import database. Where possible, Customs and Border Protection has used the descriptions in its database to try and exclude non-subject goods from the analysis. Nevertheless, it is recognised that the import data may contain an element of goods that do not meet the definition of structural timber.

Aside from the three applicants, there are five other members of the Australian industry. Based on information provided in the application, domestic sales of the applicants own production accounted for about two thirds of volume of domestic sales by the Australian industry in 2010-11.

The information used by Customs and Border Protection in its assessment of injury is at Confidential Appendix B.

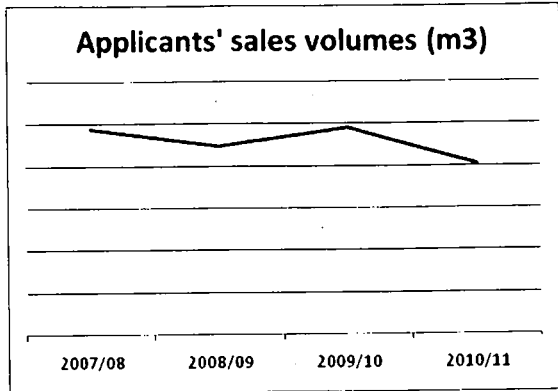
8.3 Volume effects

8.3.1 Sales volume

Movements in the applicants' sales volumes are illustrated in the following chart.

Structural timber
Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

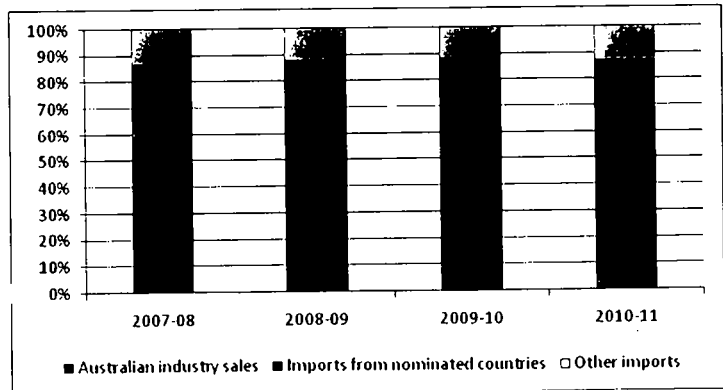
FORM
No. 86



The applicants' sales volumes declined by approximately 9% in 2008-09 from 2007-08 before recovering in 2009-10 to levels similar to 2007-08. The applicants state that 2008-09 was impacted by the Global Financial Crisis (GFC). In 2010-11, the applicants' combined sales volumes fell by 18%.

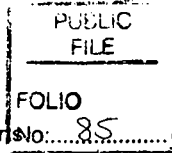
8.3.2 Market share

The following chart depicts Customs and Border Protection's estimates of the market share held by Australian industry, imports from the nominated countries and imports from other countries in the period since 2007-08. The estimates are based on information from Customs and Border Protection's import database combined with Australian industry sales data included in the application.



Based on the estimates, the Australian industry's share of the Australian market increased from 74% to 76% in 2008-09 and then fell to 73% in 2009-10 and then to 68% in 2010-11. Imports from the nominated countries have risen from 13% of the

Structural timber
Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA



market in 2007-08 to 19% in 2010-11. The share of the market taken by imports from countries other than those nominated has remained relatively stable.

8.3.3 Conclusion

Based on the information submitted in the application and information from Customs and Border Protection's import database, the applicants' sales volumes have fallen and the Australian industry's market share has fallen.

8.4 Price effects

8.4.1 Price undercutting

The application includes a document setting out extracts from weekly market intelligence reports compiled by one of the applicants. The document sets out the date, state of Australia and pricing information in relation to suppliers of structural timber imported from the nominated countries. The applicants say that the market intelligence points to significant price undercutting by the imported product. The market intelligence covers the period late 2010 to mid 2011. The summary information is supported by a number of the original market intelligence reports.

The application also includes a comparison of the offer prices of one of the applicants and offer prices of a prominent importer of structural timber. The analysis compares prices for two popular sizes of structural timber at various times from February 2009 to June 2011 to both a medium sized timber merchant and to a medium sized frame and truss manufacturer. Prices are compared for various lengths of timber described as studs, mids, longs and prime longs. The comparison is supported by price lists of the importer and Australian industry member. The analysis shows that, in all but one instance, prices offered for the imported product undercut the Australian manufactured product. The magnitude of undercutting is typically up to 10%.

The application also includes a number of price lists published by importers/wholesalers of imported structural timber.

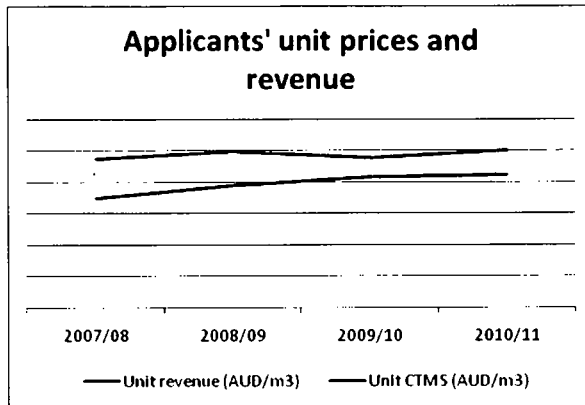
The information provided in the application appears to indicate price undercutting by the imported product. The information is dominated by the selling price information of a major importer from five of the nominated countries although some pricing information is included for two of the other three countries. The price comparisons seem to be reasonable in terms of product types and timing of the comparisons. Although the price list comparison does not represent actual selling prices and the complete terms of the offers are not known, it appears to provide reasonable evidence of price undercutting and supports the information provided in the market intelligence reports referred to above.

On the information provided in the application, it appears that structural timber from the nominated countries has undercut the prices of like products manufactured in Australia.

8.4.2 Price depression and price suppression

Price depression occurs when a company, for some reason, lowers its prices. Price suppression occurs when price increases, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between revenues and costs.

Movements in the applicants' unit prices and costs are illustrated in the following chart.



The applicants' weighted average selling prices of structural timber rose in 2008-09, fell slightly in 2009-10 and rose marginally in 2010-11. Weighted average unit costs have increased each year since 2007-08, most notably in 2008-09 and 2009-10. The pattern is similar for both untreated and treated timber.

8.4.3 Conclusion

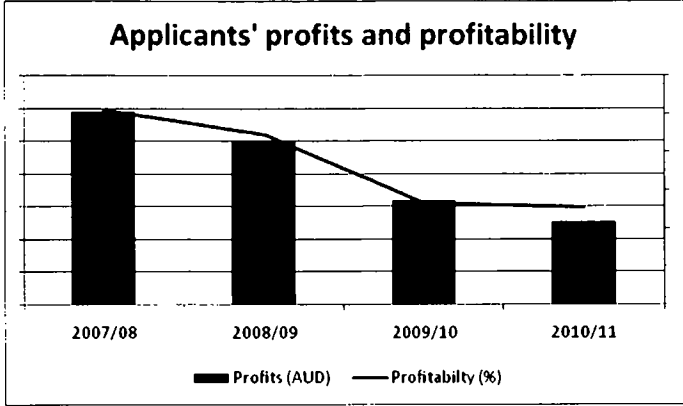
Customs and Border Protection is satisfied that, based on the information submitted in the application, the applicants' prices have been undercut by prices of structural timber from the nominated countries.

The applicants' unit prices fell in 2009-10 but rose in 2010-11. The applicants do not appear to have suffered price depression.

The unit costs increased over the four years while unit prices declined after 2008-09. Customs and Border Protection is satisfied that, based on the information submitted in the application, the applicants suffered price suppression in 2009-10 and 2010-11.

8.5 Profit effects

Movements in the applicants' profits and profitability are illustrated in the following chart.



The applicants' combined profits have fallen in each year since 2007-08. Profits in 2010-11 were 50% lower than in 2008-09, the period before the applicants claim they were impacted by the dumped goods.

Profitability fell significantly from 2007-08 to 2009-10 and remained at a similar level in 2010-11.

8.5.1 Conclusion

Customs and Border Protection is satisfied that, based on the information submitted in the application, the applicants' profits and profitability have declined significantly.

8.6 Other injury factors

BSG and Hyne each completed an appendix A7, which looks at other injury factors. The application includes indices of movements in revenue, return on investment, employment numbers and stocks for BSG and Hyne. Revenue, return on investment and employment numbers fell between 2007-08 and 2010-11 while stocks increased.

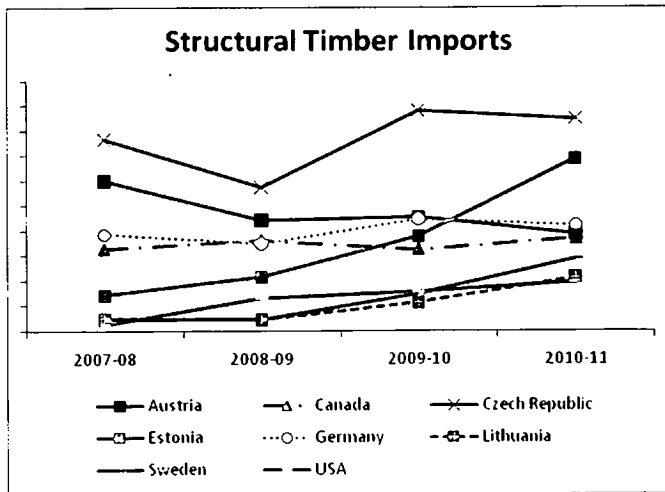
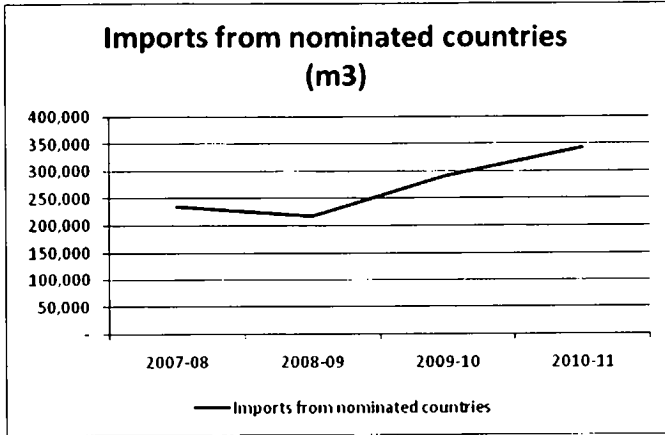
The applicants did not provide consolidated data for any other injury factors. The respective appendices indicate:

- trends in variations in the value of assets, capital investment and research and development expenses vary between BSG and Hyne;
- capacity utilisation fell in 2009-10 and 2010-11;
- productivity fell;
- there has been an upward trend in stock levels;
- trends in movements in cash flow measures (receivables and inventory turnover) are variable; and
- total and average wages fell in 2010-11.

8.7 Link between injury and dumped imports

8.7.1 Import trends

Movements in import volumes according to Customs and Border Protection's import database are illustrated in the following charts.



Structural timber
Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

Combined import volumes from the nominated countries have increased significantly since 2008-09. The countries with trends of increasing exports to Australia are Estonia, the USA, Sweden and Lithuania.

8.7.2 Causation

Based on information provided in the application and information from Customs and Border Protection's import database, the Australian industry's share of the Australian market has fallen from 76% in 2008/09 to 68% in 2010/11. While imports from countries other than those nominated in the application have remained relatively stable (at about 12-13% over the last three years), imports of structural timber from the nominated countries have increased from around 12.5% in 2008-09 to 19% in 2010-11.

The applicants claim that in the period 2007-08 to 2010-11, import volumes from the nominated countries increased by 33%. By comparison, the applicants' sales in 2010-11 were about 18% below the volumes achieved in 2007-08.

The applicants claim that their selling prices have been undercut by the selling prices of the allegedly dumped imports in 2009-10 and continuing into 2010-11. One of the applicants prepared a document setting out known offers of imported structural timber in 2010 and 2011 and how these compared with its own selling prices. The application also included documents evidencing pricing offers by a prominent structural timber importer and a comparison of imported and local price offers for two popular sizes of structural timber. The applicants claim that undercutting has generally been in the range of 4 to 10% over the period February 2009 to June 2011.

The applicants claim that the price undercutting has allowed imports from the nominated countries to increase in volume and market share. Further, the applicants claim that aggressive price competition from the imports has meant that the industry has been unable to increase prices to recover cost increases experienced in the period since 2007-08. The significantly lower unit margin and reduced sales volumes has led to a dramatic fall in profits in 2009-10 and 2010-11.

8.7.3 Injury caused by factors other than dumping

The applicants recognise that a decline in production and industry performance in 2008-09 was in part due to the impact of the GFC.

The applicants did not identify any other factors that may have caused injury to the Australian industry.

8.7.4 Cumulation of injury

Subsection 269TAE(2C) provides for consideration of the cumulative effect of exports from different countries if after having regard to:

- the conditions of competition between the exported goods; and
- the conditions of competition between the exported goods and the like goods that are domestically produced

Structural timber

Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

the relevant Minister is satisfied that it is appropriate to do so.

The conditions of competition between imported and domestically produced structural timber appear to be similar. The applicants claim that they have been unable to increase prices to recover increased costs as a result of price undercutting by imports of structural timber from each of the nominated countries.

The information contained in the Customs and Border Protection commercial database indicates that some importers of structural timber have imported from a number of the nominated countries. This indicates that the products are used by the same or similar customers.

The goods are alike, have similar specifications and end-uses, and compete in the same markets. The conditions of competition are such that it is appropriate to consider the cumulative effect of the allegedly dumped imports.

8.7.5 Comparison of export prices and estimated non-injurious prices

As an additional test of the causal link between the alleged dumping and injury, Customs and Border Protection compared a selection of estimated export prices for structural timber with estimated non-injurious prices based on the applicants' costs to make and sell with its profit margin from 2008-09 (supposedly a period unaffected by dumping).

Customs and Border Protection found that the estimated export prices for all the nominated countries was below the estimated non-injurious prices, a further indication of the dumping causing injury to the Australian manufacturers.

The analysis is at **confidential appendix C**.

8.7.6 Customs and Border Protection's assessment

Based on available information, combined imports from the nominated countries have increased each year since 2007-08. Their share of the Australian market in 2010-11 was 19% compared to 13% in 2007-08. This increase in market share has been at the expense of Australian manufactured structural timber.

The applicants have provided probative evidence that the prices of imported structural timber have consistently undercut the prices of locally manufactured product. The price undercutting appears to have prevented the Australian manufactures from increasing prices to recover increased costs. This has led to significant falls in profit and profitability for the applicants.

The volume and profit injury experienced by the applicants is very significant in terms of their performance. Considering that the applicants appear to represent between 60 and 70 percent of the Australian industry by volume, it is reasonable to conclude that the alleged dumping has caused material injury to the Australian industry producing like goods.

The GFC clearly impacted on the Australian manufacturers in 2008-09 but it appears that the market recovered in 2009-10. The increase in market share, apparent price undercutting and price suppression indicates that the allegedly dumped imports caused the injury to the Australian industry. The estimated dumping margins from each of the nominated countries are significant. On the available information, the injury caused by the dumping appears to be material.

8.8 Conclusion on material injury caused by dumped imports

Customs and Border Protection is satisfied that, based on the information submitted in the application, the applicants have demonstrated that they appear to have suffered injury and that there appear to be reasonable grounds for concluding that the dumping of structural timber exported to Australia from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and the USA has caused material injury to the Australian industry producing structural timber.

9 Supplementary items

9.1 Close processed agricultural goods

Subsection 269T(4A) provides that:

Where, in relation to goods of a particular kind first referred to in subsection (4), the like goods referred to in that subsection are close processed agricultural goods, then, despite subsection (4), the industry in respect of those close processed agricultural goods consists not only of the person or persons producing the processed goods but also of the person or persons producing the raw agricultural goods from which the processed goods are derived.

Subsection 269T(4B) provides that:

For the purposes of subsection (4A), processed agricultural goods derived from raw agricultural goods are not to be taken to be close processed agricultural goods unless the Minister is satisfied that:

- (a) the raw agricultural goods are devoted substantially or completely to the processed agricultural goods; and
- (b) the processed agricultural goods are derived substantially or completely from the raw agricultural goods; and
- (c) either:
 - (i) there is a close relationship between the price of the processed agricultural goods and the price of the raw agricultural goods; or
 - (ii) a significant part of the production cost of the processed agricultural goods, whether or not there is a market in Australia for those goods, is, or would be, constituted by the cost to the producer of those goods of the raw agricultural goods.

As defined in section 269T

raw agricultural goods means goods directly obtained by the undertaking of any agricultural operation or any fishing operation

agricultural operations means:

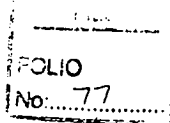
- (a) the cultivation or gathering in of crops; or
- (b) the rearing of live-stock; or
- (c) the conduct of forestry operations;

and includes:

- (d) viticulture, horticulture or apiculture; or
- (e) hunting or trapping carried on for the purpose of a business.

Structural timber
Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

forestry operations means the felling, in a forest or plantation, of standing timber.



Therefore, the Minister must be satisfied of the three conditions in subsection 269T(4B) are met before the processed agricultural goods can be taken to be close processed agricultural goods and the definition of the Australian industry expanded.

On the available information, Customs and Border Protection considers that the condition set out in paragraph 269T(4B)(a) is not met in that harvested softwood timber is not devoted substantially to any one timber end-use in Australia. Harvested softwood timber is used to product a range of products in addition to structural timber including decking, fencing, garden sleepers, plywood, woodchip and particleboard.

Customs and Border Protection's current view is that structural timber is not a close processed agricultural good.

PROCESSED FILE
FOLIO
NO. 76

10 Conclusion

Customs and Border Protection has examined the application and is satisfied that:

- the application complies with s. 269TB(4); and
- there is an Australian industry in respect of like goods; and
- there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application exported from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and the USA.

Accordingly, the delegate of the CEO has not rejected the application for the publication of dumping duty notices under s. 269TC(1).

For the purposes of the investigations:

- the investigation period to determine whether dumping has occurred will be from 1 July 2010 to 30 June 2011; and
- Customs and Border Protection will examine the Australian market and the economic condition of the industry from 1 July 2007 for the purposes of injury analysis.