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AUSTRALIAN INDUSTRY COMMENTS**Comments re Stora Enso Exporter Questionnaire responses: Plana and Zdirec Mills**

The following comments are provided following an examination of the Stora Enso Plana Exporter Questionnaire provided to the Australian industry on 26 October 2011.

1. Plana Mill Exporter Questionnaire

The following points are highlighted:

- The Stora Enso Plana Mill is 100 per cent owned by Stora Enso Wood Products GmbH, Austria
 - Corporate charges/allocations and/or management fees from parent company would be incurred by the subsidiary;
 - Legal structure indicates that Stora Enso Plana is ultimately owned by Stora Enso Oyj, Finland
- Stora Enso sells on the Czech Republic domestic market;
- The valuation method used by Stora Enso for goods is "average production cost"
 - Costing needs to more accurately reflect number of work stations and associated processing costs (i.e. with costs correctly assigned to MGP grades produced for Australia) rather than averaged across total site production;
 - Due consideration may be required as to whether domestic sales of timber products from the Plana mill could be "adjusted" (i.e. specification adjustment) to take account of the drying, scanning, planing, and treatment required for MGP grade structural timber exported to Australia;
 - If any take or pay obligations on log contracts exist and are paying exercised and this cost is spread across the production;
 - Invoices for log are reflective of the actual log sizes and classes used across the year (e.g. two-monthly or quarterly averages based on log class and diameter) and can be reconciled with the timber used in MGP graded structural timber;
- The valuation method used by Stora Enso for damaged or sub-standard goods is "average selling price". It is claimed at Section E-2 that domestic sales of 'like goods' are '*damaged goods*'
 - Concern that the average selling price for like goods in Czech Republic is not a selling price that is representative of the goods under consideration as the price is likely to be substantially discounted because they do not comply with Building Code of Australia requirements (i.e. damaged or sub-standard goods cannot be categorised as *the goods under consideration*);
 - It would appear that Stora Enso is suggesting that it does not sell structural timber of the equivalent grades exported to Australia in the Czech Republic. In the absence of suitable sales of like goods, C&BP may determine normal values on Stora Enso's CTM&S. A level of profit to include in the normal value may be derived from the profit achieved on the domestic sales of other timber products manufactured at the Plana mill;

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- It is indicated at Section D-1 that Stora Enso Plana sells to traders and industrial customers – selling prices to industrial customers on the domestic market in the Czech Republic may be the source of a level of profit for normal value purposes;
- It is stated that "by-products are valued with their average price". By-products include bark, sawdust, chips and shavings (See Section G-1). C&BP will need to test that the average selling price for by-products is a market-based price
 - Inter-company/related company sales volumes and selling prices should be transparent in the mix of residues sales; and
 - Establish that residues are credited back against all production.
- On the basis that Stora Enso Plana is suggesting that domestic sales of the goods under consideration are of "damaged" goods, the additional production costs associated with the drying, scanning, planing, and chemical treatment required for the MGP grades exported to Australia, are allocated across a relatively small volume of products (i.e. therefore attracting a high unit cost for these activities versus costs associated with green-sawn or sawn-dried timber only.
- Query what shipping Inco-term "CIP" represents;
- Section B-8 makes reference to no import duties paid. There are assertions that some European imports are not paying the 5 per cent ad valorem Customs Duty rate – classifications can be confirmed at importer visits;
- The exporter questionnaire does not reference whether Stora Enso Plana Mill purchases logs from an associated party – Tomator Oy. The parent company Stora Enso Oyj has a 41 per cent ownership stake in Tomator Oy. The legal structure diagram presented at Appendix A-3-3 recognises this ownership. P.122 of Parent Company Stora Enso's 2010 Annual Report (available on web) again confirms the 41 per cent ownership and further states that Stora Enso *"has long-term supply contracts with the Tomator Group for approximately 1.6 million cubic metres of wood annually at market prices and in 2010 purchases of 1.8 million cubic metres came to Eur 53.0 million"*
 - Are log purchases at the Plana (and Zdirec) mill from Tomator? Are purchase prices market-based?
- For the goods under consideration that are treated (e.g. H2/H2-F) for sales in Australia that product costing picks-up correct chemical costs, associated labour and handling and capital charges. Treatments used for Australia sales are unlikely to be a requirement of the domestic market or other markets that the mill sells to
 - C&BP to determine whether treatment process occurs fully in-line and type of equipment used, or whether outsourced;
 - Full costs associated with treatment processing to be identified.
- Costs associated with containerisation (container hire, labour, return empty fees) are correctly collected against product and destination and not averaged across the site's total production. Demurrage (road and sea) and standing costs on wharf are allocated to product and destination and not averaged across production;
- Confirm that inland transport to wharf is at actual prices;
- Sea freight should be based on actual costs to Australia rather than average costs.

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2. Stora Enso Plana 2010 Annual Report

- Report confirms an apparent log-in volume of 625,367 plm in 2010. The volume for out turned processing in 2010 was 318,012 m³. The processed volume in is higher than stipulated on Stora Enso's website. This combination suggests a lumber recovery rate of whole of site of 50.9 per cent in 2010
 - C&BP to test Plana's asserted recovery rate and ensure that claimed recovery rates are not excessive;
 - C&BP also to establish the extent of kiln drying, planning of materials and the extent of goods under-consideration represented in the out-turned mix;
- Re Depreciation of plant (See Note 3)
 - Depreciation is allocated to products based on the work centres involved in their production and not averaged across total production
- Stora Enso Plana mill appeared to incur forward cover exchange losses on sales to Australia in 2010 (Financial Note 9), that should be accounted for in determining whether all costs have been recovered on export sales;
- The organisational structure diagram does not appear to represent a total head-count of Full Time Equivalent employees at Plana – rather it represents a detailing of the key responsibilities on the site.
 - Labour associated with the work centres to produce goods under consideration are properly allocated and not being attributed to any subsequent value-adding activities

3. Zdirec Mill Exporter Questionnaire

- Stora Enso Wood Products GmbH, Austria is parent company;
- As per the Plana Mill Exporter Questionnaire document, the Zdirec Mill document suggests that domestic sales of structural timber are for "damaged" goods (see comments above);
- Organisation chart appears incomplete - suggests that approx. 26 persons employed in timber mill and a further 51 in corporate roles
 - Product costing should be inclusive of contract labour used

4. Stora Enso Zdirec 2010 Annual Report

- Report confirms an apparent log-in volume of 939,046 plm in 2010. The volume for processing outturn in 2010 was 526,912 m³. This combination suggests a lumber recovery rate of 56.1 per cent in 2010
 - These volumes exceed those listed on the Stora Enso website;
 - This recovery rate suggests a high volume of green-sawn timber and a low output of kiln-dried, planed (and treated) structural timber – important for C&BP to verify;
 - C&BP to test Zdirec's asserted recovery rate and ensure that claimed recovery rates are not excessive ;

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- Will necessitate breakdown of products into product groupings that also understanding of what is kiln dried and/or planed and portion to which goods under consideration form part of the overall volume
- Lower exchange rate losses on sales to Australia in 2010 than Plana Mill.