Exporter Verification Visits – Structural Timber

Customs and Border Protection ("C&BP") is conducting exporter verification visits in seven countries (excluding Czech Republic) involving structural timber manufactured and exported to Australia during the period 1 July 2010 to 30 June 2011.

The Australian industry is seeking to ensure that C&BP verifies the correct costs incurred with the manufacture of the MGP grade structural timber exported to Australia. Average costs allocated across total production of the sawmill by the manufacturer ***do not*** accurately reflect the true costs of production of goods exported to Australia. Any average cost approach would result in a significant understatement of the goods exported to Australia. For this reason the following guidance is provided to C&BP to ensure all relevant costs are appropriately allocated to the exported goods.

In its Exporter Questionnaire response for goods exported from Lithuania, Stora Enso Alytus provided a production flow diagram[1] for main processes engaged at its Alytus sawmill. Stora Enso further indicated in its submission that it employs SAP system for reporting purposes. It is understood that the SAP system enables proprietors to utilise cost models for products to optimise sales of manufactured goods. C&BP should request standard cost models for domestic and export grades of timber manufactured by the exporter. For example, green-sawn timber that is sold undried and unplaned is packaged for domestic sale. This product would have a different cost per unit to MGP grade structural timber that includes the additional costs of kiln drying, sorting, planing and finger jointing.

The Australian industry considers that the Alytus production process (as per P.5 of the FPC Handbook at Appendix G_1_1) is representative of the constructed selling price model used for establishing constructed selling prices in the country of export. Importantly, the following key ***individual production process stages excluding treatment*** (each representing a separate cost impost) are identified in the Stora Enso Alytus Handbook:

1. Sorting of Logs
   - Receiving of logs
   - Stowing of logs
   - Sorting of logs
   - Stowing of logs

2. Sawing, sorting, packing
   - Logs infeed, debarking
   - Sawing
   - Edger
   - Sorting
   - Packing
   - Stowing
   - Delivery

3. Stocks and kiln drying
   - Kiln drying

4. Sorting
   - Sorting
   - Packing

5. Planing
   - Planing (visual or machine strength grading)
   - Packing

[1] Refer Stora Enso Alytus Exporter Questionnaire Response Appendix G_1_1.

- Secondary value-add processes eg: Docking, special packaging, finger jointing where applicable

6. Stowing and delivery
   - Stowing
   - Delivery

There are by-product credits that flow from the production processes identified above. The by-products generated are reflected in Stora Enso's Alytus Sawmill process flow diagram at P.5 of the FPC Handbook and include credits for bark, sawdust and chips at the sawing stage, and trimcuts and shavings from the planing stage. Such by-products credits would typically be allocated to all production passing through the green mill on the basis of volume of production.

Each production stage in the above process attracts separate additionnal processing costs. It is therefore evident that green-sawn timber that is packed and stored for delivery (completed at end of Stage 2 above and is representative of the majority of domestic sales by the manufacturer) has a lower per cubic metre production cost than structural timber that passes progressively through each of the 6 production phases (and includes a cost at each stage).

As per usual C&BP practice, a quarter within the investigation period may be selected for verification purposes. The Australian industry would highlight that there exist seasonal variations with certain costs in the structural timber manufacturing process including, in particular, costs associated with the operation of the drying kiln. The cost of the kiln is higher in winter months than in summer months, and C&BP should sensure that it verifies annual costs associated with kiln drying to permit for correct allocations.

In the collection of all production information, it is critical that C&BP record the associated unit of measure (uom) with each datapoint collected in the cost modelling of exporters. Additionally the conversion of said production uom into actual dimensional sizing (e.g. 100mm x 50mm at green mill, 90mm x 45mm post planer) must be clear for each stage of the process must be clear. Significant and substantive errors will likely result where the uom or a correct conversion factor in actual size is unclear. It is therefore strongly recommended that all data collected be converted to actual cubic metres.

Cycle of production