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Australian Government
Australian Customs and
Border Protection Service

R E P O R T

**INVESTIGATION INTO THE ALLEGED DUMPING OF
STRUCTURAL TIMBER
EXPORTED FROM
AUSTRIA, CANADA, THE CZECH REPUBLIC,
ESTONIA, GERMANY, LITHUANIA, SWEDEN AND
THE USA.**

VISIT REPORT - AUSTRALIAN INDUSTRY

CARTER HOLT HARVEY WOODPRODUCTS AUSTRALIA PTY LTD

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED
THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND
MAY NOT REFLECT THE FINAL POSITION OF CUSTOMS AND BORDER
PROTECTION**

October 2011

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Abbreviations

\$	Australian dollars
A3P	Australian Plantation Products and Paper Industry Council
The Act	<i>Customs Act 1901</i>
The applicants	Building Supplies Group Holding Pty Ltd (BSG), Hyne & Sons Pty Ltd (Hyne) and Gunns Limited (Gunns)
BSG	Building Supplies Group Holding Pty Ltd
CHH WPA	Carter Holt Harvey Woodproducts Australia Pty Ltd
COGS	Cost of goods sold
CTM	Cost to make
CTMS	Cost To Make & Sell
CTS	Cost to sell
Customs and Border Protection	Australian Customs and Border Protection Service
EBIT	Earnings before interest and tax
FOB	Free On Board
GAAP	Generally accepted accounting principles
HFM	Hyperion Financial Management
LPM	Low pressure melamine
LVL	Laminated veneer lumber
MGP	Machine grade pine
NIP	Non-injurious Price
PAD	Preliminary Affirmative Determination
PMO	Pine mouldings (Mount Gambier)
SAP	Accounting software
SEF	Statement of Essential Facts
structural timber	As defined in section 3.1 of this report
Tariff Act	<i>Customs Tariff Act 1995</i>
the goods	the goods the subject of the application
the Minister	the relevant Minister, in this case the Attorney-General
USP	Unsuppressed Selling Price

PUBLIC FILE VERSION**1 BACKGROUND**

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-General¹) 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 United States of America (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 twenty day period for considering the application.

There have been no previous investigations into structural timber by Australian authorities (or by Customs and Border Protection).

The investigation was initiated on 9 September 2011. A public notification of the initiation of the investigation was published in *The Australian* on 9 September 2011.

Australian Customs Dumping Notice (ACDN) No. 2011/41 refers to the initiation of this investigation, and is available at www.customs.gov.au

1.1 Purpose of visit

We explained to the company that the purpose of our visit was to:

- obtain general information about the Australian market for structural timber;
- gain a greater understanding of the company's manufacturing, marketing, sales and distribution processes;
- verify information provided in the application relating to the company;
- obtain additional financial data to assist in the analysis of the claimed injury to the Australian industry;
- give the company the opportunity to provide any further comments or raise any further issues it believed relevant to the investigation; and
- discuss and gather data relevant to establishing an unsuppressed selling price (USP).

¹ 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.

1.2 Contact details

Company:	Carter Holt Harvey Woodproducts Australia Pty Ltd
ABN:	93 002 993 106
Address:	Millicent Road, Mount Gambier, South Australia Jepsen Avenue, Tumut, New South Wales
Telephone:	08 8721 8300 (Mount Gambier) /02 6941 4000 (Tumut)
Fax:	08 8739 7313
Date of visit	21, 22 and 23 September 2011 – Mount Gambier, South Australia 6, 7 October 2011 – Tumut, New South Wales

The following were present at various stages of the interview.

CHH	Mr Tim Sherry, Marketing and Pricing Manager Mr Colin McGregor, Commercial Analyst Mr Matthew Brookes, Operations Manager Mr Craig Stratford, Supply Chain Manager, Southern Region Ms Anna Gorton, Legal Counsel
Consultant	Mr John O'Connor, Consultant
Customs and Border Protection	Mr Geoff Gleeson, Director, Operations 3 Mr Tim Flor, Supervisor, Operations 3

1.3 Investigation process and timeframes

We advised the company of the investigation process and timeframes as follows:

- The investigation period is 1 July 2010 to 30 June 2011;
- The injury analysis period is from 1 July 2007 for the purpose of analysing the condition of the Australian industry;
- A preliminary affirmative determination (PAD) may be made no earlier than 8 November 2011. Provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made. Customs and Border Protection would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice;
- A Statement of Essential Facts (SEF) will be placed on the public record by 28 December 2011 or such later date as the Minister allows under s. 269ZHI. The SEF will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister. The SEF will invite interested parties to respond, within 20 days, to the issues raised. Submissions received in response to the SEF will be considered when compiling the report and recommendations to the Minister;
- Customs and Border Protection's report to the Minister is due no later than 11 February 2012, unless an extension to the SEF is approved by the Minister.

1.4 Visit Report

We explained to the company that we would prepare a report of our visit. The report would be provided to the company to review its factual accuracy and to identify those parts of the report it considered confidential. Following consultation about confidentiality, we would prepare a non-confidential version of the report for the public record.

2 COMPANY BACKGROUND**2.1 Corporate, organisational and ownership structure**

Carter Holt Harvey Woodproducts Australia Pty Ltd (CHH WPA) is a wholly-owned subsidiary of Building Supplies Group (BSG) Holdings Pty Ltd. BSG's parent company is the New Zealand holding company Rank Group Limited.

CHH WPA operates at several manufacturing, administration and distribution sites. All sites are wholly-owned by CHH WPA or by subsidiary or related companies in the CHH WPA group of companies. Detail of this is provided in **confidential attachment GEN 1** and is discussed in Section 4. Specifically, the legal entities responsible for the manufacture of structural timber are:

- CHH WPA (Jubilee & Myrtleford);
- Highland Pine Products Pty Limited (50% share of the joint venture in Oberon with Boral Timber);
- Carter Holt Harvey Pine Products (Australia) Pty Ltd²;
- Brown & Dureau Holdings Pty Ltd, which owns Brown and Dureau Building Materials Pty Ltd (Morwell);
- Carter Holt Harvey Woodproducts (Southern Region) Pty Limited (Lakeside & Dartmoor);
- Carter Holt Harvey Woodproducts (Central and Northern Regions) Pty Limited (Tumut, Caboolture); and
- Carter Holt Harvey Woodproducts (Distribution) Pty Limited (includes distribution centres).

CHH WPA purchased the last three legal entities above as an acquisition of Weyerhaeuser Australia Pty Ltd in 2009. The present CHH WPA organisational structure reflects the previous Weyerhaeuser organisational structure. A diagram of the company's organisational structure was provided as a confidential attachment to the application and is reproduced at **confidential attachment GEN 2**.

CHH WPA informed us that its operating structure, for business and management reporting is different to its organisational structure.

² This entity transfers product to [REDACTED] which in turn transfers to CHH WPA for sale to third parties. There are no invoices between these related entities as the transactions are treated as internal transfers.

PUBLIC FILE VERSION**2.2 Accounting structure and details of accounting systems**

The accounting period of the company is based on the financial year 1 January to 31 December. CHH WPA's financial statements are consolidated into its annual statements. These statements are audited by Deloitte.

CHH WPA advised in its application that its accounting practices do not differ from Australia generally accepted accounting principles (GAAP).

CHH WPA advised that over the period of investigation, separate accounting systems were used and that these had been fully integrated into SAP. However, it advised that at the time of the application the Highland Pine Products joint venture and Panels Division were not integrated into SAP.

CHH WPA noted that each manufacturing site is treated as a separate accounting profit centre in CHH WPA's accounts. It advised that it can extract and analyse financial data using a management information system called Hyperion Financial Management (HFM).

CHH WPA explained that for reporting purposes, BSG is composed of CHH WPA and several other packaging entities that are not involved in production or sales of structural timber.

CHH WPA also explained that prior to April 2011 the management structure of CHH WPA comprised Timber, Panels, Plywood, LVL and Head Office units. It explained that the Timber unit is made up primarily of Caboolture, Tumut, Myrtleford, Morwell, Yarram, Dartmoor, Jubilee, Lakeside, Export Chip, Highland Pine JV and Distribution Centres.

It further explained that from April 2011 CHH WPA has been composed of Timber, Panels, Plywood, and LVL with each having their own head office unit.

2.3 Relationship with suppliers and customers

The log suppliers for CHH WPA comprise both Government-owned forest plantations, such as Forests NSW and Forestry SA, and privatised plantations. CHH WPA advised that none of the log suppliers are related companies.

CHH WPA advised that all of its customers of structural timber are unrelated entities.

3 THE GOODS**3.1 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.

CHH WPA explained that it does not presently import the goods under consideration. It confirmed that its most recent imports of structural timber were from [REDACTED] in 2007.

CHH WPA considers that 'appearance grade' timber is not assessed for structural applications, is not capable of being used in accordance with the Building Code of Australia, and is therefore not the goods the subject of the application. It noted that appearance grade is generally a higher priced timber and it would generally not be feasible for it to be used in structural applications in accordance with the Building Code of Australia.

CHH WPA advised that it produces small volumes of machine grade F rated (e.g. F5) timber, which it considers to be like goods to the goods subject of the application. The company noted that it occasionally manufactures this F-grade in both treated(H2) and untreated forms subject to customer demand and the product usually sells at a lower price compared to higher rated MGP grade... CHH WPA advised that some outdoor treated F-grade (H3 or greater) product is produced at Jubilee. CHH WPA explained that the costs and sales of F-grade structural timber are included in the Appendix A6 data for structural untreated timber.

3.1.1 Tariff classification

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).

Imports under the following tariff subheadings are not the goods the subject of the application:

- 4407.10.99 (statistical codes 14,15,16, 20); and
- 4407.10.10 (statistical code 21).

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.

3.1.2 Tariff concession orders

Customs and Border Protection notes that no tariff concession orders apply to the goods.

3.2 Standards to which structural timber is manufactured

In the application, the applicants identified the relevant standards to which structural timber is manufactured. The Australian industry manufactures structural timber in accordance with Australian Standard AS/NZS1748 to meet the design properties and other utility requirements specified in AS1720 (both 1997 and 2010 versions whilst in transition to the latter Standard).

AS/NZS1748 - Timber-Solid-stress graded for structural purposes has two (2) parts:

- Part 1 – General requirements; and
- Part 2 – Qualification of a grading method.

Part 1 outlines general branding, moisture and strength requirements affecting grade; that the grading method be qualified in accordance with Part 2; and that the nominated properties have been verified in accordance with AS/NZS 4490 – 2011.

Part 2 details the qualification of systems used to verify properties of timber. This includes machine stress graders based on low point contact grading (e.g. Metriguard) as the qualified system with the resultant product branded as MGP (machine grade pine).

In the application, the applicants claim that structural framing timber can also be visually graded to Australian Standard AS/NZS2858 to meet design properties specified in AS1720 (i.e. F5 and F7). AS/NZS2858 is used for non-load bearing internal studs and as a basis for product requiring visual grading.

The industry manufactures the following grades: MGP10, MGP12 and MGP15. The timber is available in a range of sizes from 70x35mm to 190x35mm, and in lengths commonly ranging from 2.4 to 6.0 metres.

The locally-produced structural timber is also available in treated forms (designated with an "H" e.g. "H2") to protect against termite attack. Permethrin

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and bifenthrin are active ingredients or repellents used in the treatment process. Treated structural timber is available from the Australian industry in the same grades, sizes and lengths as untreated structural timber.

PUBLIC FILE VERSION**4 THE AUSTRALIAN INDUSTRY****4.1 Production**

The company advised that it currently manufactures structural timbers at sites detailed below:

- Mount Gambier, South Australia - Lakeside and Jubilee sites;
- Morwell, Victoria;
- Tumut, New South Wales;
- Caboolture, Queensland; and
- Highland Pine Products, New South Wales (joint venture). CHH WPA's Highland Pine Products operates on a 50:50 joint-venture operation with Boral Limited.

CHH WPA advised that its sites at Yarram, Victoria and Myrtleford, Victoria do not manufacture structural timber, although structural timber was produced at Myrtleford, Victoria up until June 2010, after which it produced only packaging and appearance grade material and was later closed by the company in February 2011. The Dartmoor mill was also involved in the production of structural timber until late 2008.

As part of the verification Customs and Border Protection inspected site facilities at Mount Gambier. This enabled Customs and Border Protection to develop an understanding of the production process that may be similar to the other Australian industry applicants.

4.2 Like goods

The applicants claimed that the goods produced by the Australian industry possess essential characteristics which are like to the goods the subject of the application. The company claimed that imported structural timbers 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.

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In particular, CHH WPA considers its 'structural UT' and its 'structural H2' grades to be like to the goods the subject of the application. CHH WPA presented data for these two grades as well as for packaging and outdoor/treated grades in its Appendix A6 data. CHH WPA advised that this was done for the sake of completeness, and to facilitate verification.

CHH WPA considered that packaging grade is not like goods because it is not capable of being used in accordance with the Building Code of Australia. CHH WPA considers outdoor/treated grade is not like goods because these products are treated to the H3 (Hazard class) level and are therefore explicitly excluded from the goods description.

Based on the information in the application and on our visit to CHH WPA, we consider that its locally produced structural timber ('structural UT' and 'structural H2' grades) are like goods to the goods the subject of the application.

4.3 Manufactured in Australia

The entire production process through which the company converts the timber log to structural timber is undertaken within Australia. Therefore the goods manufactured at the company's mills would be considered to be wholly manufactured in Australia in accordance with section 269T(2).

4.4 Capacity, employment and annual turnover

CHH WPA estimated that it can produce an average of [REDACTED] cubic metres of structural timber annually. However CHH WPA indicated that over the injury analysis period they were currently running at around [REDACTED] per cent capacity. CHH WPA advised that it determined its practical capacity by selecting an actual peak production period for each mill over the investigation period.

CHH WPA advised that, as at 30 June 2011, it had approximately [REDACTED] employees, of which [REDACTED] were related to the manufacture of structural timber. Employment levels over the investigation period are discussed in the "Other Injury Factors" section of this report. CHH WPA claimed that at its Caboolture mill, [REDACTED] had reduced its staff there from approximately [REDACTED] to [REDACTED], and that capacity fell almost [REDACTED] %.

The company noted that it had implemented several productivity improvements over the investigation period as described below.

Investment in plant facilities

CHH WPA advised that it invested:

- \$ [REDACTED] million to purchase the Weyerhaeuser business in 2009 to alter the production base and realise benefits from the greater economies of scale;
- \$ [REDACTED] million in new kilns at [REDACTED] to increase its manufacturing capacity.
- The company also introduced an [REDACTED] process to replace the traditional H2-F treatment processes, including outsourcing, which it claimed as having the potential for reducing manufacturing unit costs from an estimated \$ [REDACTED] to \$ [REDACTED] (assuming no volume change); and
- \$ [REDACTED] to install the [REDACTED] non-contact grade scanning system at [REDACTED] mills. The technology uses X-ray and laser scanning techniques to determine timber strength and recognise knots, cracks, wane and dimensions of boards. This improves log recovery and log optimisation. Customs and Border Protection inspected the [REDACTED] non-contact grade scanning system during its verification visit.

CHH WPA also advised that it re-tendered its [REDACTED] and [REDACTED] costs to other suppliers. It explained that [REDACTED] were reviewed, but not subsequently changed.

Cost reduction measures

CHH WPA advised that it has implemented cost reduction measures such as:

- closure of low-productivity sites (i.e. Dartmoor and Myrtleford);
- implementation of [REDACTED] days;
- implementation of [REDACTED] [service];
- reduced shift loads [REDACTED], and reduced headcount [REDACTED];
- reduced daily production quotas; and
- implementing plant synergies, [REDACTED].

In addition, CHH WPA advised that [REDACTED] were engaged as consultants for advice on best practice in [REDACTED], and to assist in implementing the cost reduction measures listed above. CHH WPA regards such measures as necessary to enable it to become more responsive to fluctuations in market

conditions including competition. The cumulative effects of these strategies are, in CHH WPA's view, designed to [REDACTED] [improve production efficiencies].

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5 AUSTRALIAN MARKET

5.1 Market size, condition and servicing of market sectors

In the application, industry applicants observed that the demand for structural timber is driven primarily by the Australian housing sector. They identified several economic factors that impact on the underlying demand for dwellings and non-dwelling buildings, including but not limited to interest rates, housing affordability, government incentives and prevailing weather conditions.

CHH WPA estimated that it held, in the second half of the 2010-11 financial year in volume terms, a █% share of the overall Australian market for structural timber. It claimed that its market share had declined over the investigation period, primarily due to imported product. There is further discussion of this claim in the "Causation" section of this report.

5.2 Distribution arrangements

CHH WPA markets and sells structural timber on behalf of all its structural timber manufacturing sites. CHH WPA advised that a ██████████ is in place to give effect to this arrangement between the separate legal entities and this agreement means that invoices need not be issued between the related parties. Instead, the transactions between these related entities are treated as internal transfers. CHH WPA only issues invoices when making sales to third parties.

CHH WPA explained that over the investigation period, the company acquired several manufacturing sites that had different distribution arrangements. Key ownership and distribution arrangements over the investigation period are summarised below, with detail provided in **confidential attachment GEN 3**. The impact of these ownership and distribution changes does not affect our analysis of selling and administration cost allocations to manufacturing sites of structural timber.

Operation	Ownership prior to August 2008	Distribution arrangements	Ownership from August 2008
LVL, Plywood, Panels	Carter Holt Harvey	Sell direct to customer	Carter Holt Harvey.
Jubilee			Former GFP sites at Tumut, Caboolture, Lakeside and Dartmoor continued selling to DC's
Myrtleford			
Morwell			
Highland Pine Products (joint venture)			
Tumut	Weyerhaeuser	Sold direct to	

Caboolture		customer and paid PSA a selling commission, or sold to PSA DC's at a wholesale rate	until 2010.
Lakeside	GTFP (joint venture between GFP and Weyerhaeuser). This included forests and export chip operations.		
Dartmoor			
Distribution centre	GFP (joint venture between GTFP and Weyerhaeuser)		

CHH WPA has distribution centres in every Australian capital city, and it delivers from these distribution centres direct its customers.

CHH WPA advised that its wholesaler customers are not provided exclusivity and it considers that many wholesalers are likely to purchase from other Australian manufacturers of structural timber as well as import products from the nominated countries.

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6 SALES**6.1 Domestic sales - general****6.1.1 Ordering, invoicing and delivery arrangements**

CHH WPA explained that the following arrangements apply to its sales of structural timber:

- a customer order is placed with the customer service operator;
- CHH WPA will check whether the item is in stock and if necessary add the order to the forward order schedule;
- CHH WPA generally arranges for delivery of the goods to the customer (it advised that a very small proportion of sales are ex-factory); and
- CHH WPA generates the invoice at time of despatch and sends to customer.

6.1.2 Level of trade

CHH WPA advised that it distinguishes the price at which product is sold to wholesalers, and the price at which product is sold to merchants or frame and truss manufacturers. The company advised that the price to the [REDACTED] of customers is generally [REDACTED] than that to the [REDACTED] group of customers.

Our analysis of the detailed sales data for CHH WPA, for the period January to June 2011 supported this claim. [REDACTED]

[Graph depicting commercially sensitive prices to customers removed]

6.1.3 Pricing

The company explained that the following characteristics affect price:

- Level of treatment
- Grading (MGP10, MGP12, MGP15)
- Length
- Section size (i.e. variations in depth/width combinations)

The chart in the previous section indicates that structural H2 was [REDACTED] higher in price for all customers than the structural UT.

In the period from January to June 2011, the difference in prices of structural H2 and structural UT, by customer, ranged from \$ [REDACTED] to \$ [REDACTED] per cubic metre, while the weighted average difference was \$ [REDACTED] per cubic metre.

As part of the industry application CHH WPA provided product price lists as at [REDACTED]. The price list confirmed the price points were also different depending on the other variables:

- The MGP grade variations were [REDACTED] in terms of price, with the [REDACTED] from MGP 10 to MGP 12 being around [REDACTED]%, and the increment from MGP 12 to MGP 15 being a further [REDACTED]%.
- The section length accounts for a relatively [REDACTED] price variation, with [REDACTED] lengths being the same price, and the lowest in price, while [REDACTED] lengths were about [REDACTED], and [REDACTED] lengths about [REDACTED].
- The section sizes were a significant factor in terms of price, with the common sizes of 70x35, 70x45, 90x35 and 90x45 varying in prices within a range of about [REDACTED]%. However, the range of [REDACTED] were [REDACTED] in price. The varying prices by section size are shown in the chart below

[graph depicting CHHWPA's average prices by section size removed].

6.1.4 Discounts and rebates

CHH WPA advised that rebates are occasionally a feature of the Australian market, [REDACTED]

[REDACTED]. CHH WPA explained that the rebates are [REDACTED], but that the Appendix A4 data, and the Appendix A6 data showed the [REDACTED] data.

CHH WPA noted that [commercially sensitive details re rebates] [REDACTED]. Our analysis of the details sales data the company provided in Appendix A4 showed that, over

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the investigation period, [REDACTED]
[REDACTED] [commercially sensitive details re rebates].

Verification of sales data - general

In its Appendix A6, CHH WPA provided sales data, in the form of half-yearly aggregate amounts for net sales revenue, and average amounts per cubic metre. The data was presented for the period from July 2007 to June 2011.

As discussed, in the cost to make and sell section, the A6 appendices were presented separately for the following product groups:

- structural UT;
- structural H2;
- outdoor/treated;
- domestic packaging (including case or green-sawn, merch/industrial, and rough-sawn-kiln-dried [RSKD]); and
- export packaging.

Sales data was not presented again separately in relation to each plant.

We sought to trace the sales data that was submitted up through management reports to audited financial statements to establish confidence in the completeness and relevance of the data. We also sought to trace the sales data to source documents to establish confidence in the accuracy of the data.

6.2 Verification of sales to audited financial statements

CHH WPA explained that the sales data in Appendix A4 included sales transactions made from all business units that sell structural timber (except Oberon), unlike the cost data that was supplied only in relation to the four key structural timber mills.

CHH WPA amended its Appendix A6 data to include its Oberon sales to provide a more complete sales database for calculating average sales prices for structural timber. We noted that the Appendix A4 data reconciled with the Appendix A6, once Oberon figures were taken into account. Documents that demonstrate the reconciliation between Appendix 4 sales data and Appendix A6 summary sales data are at **confidential attachment Sales 1**. A summary of the Oberon sales data is also included in that attachment.

CHH WPA provided a detailed profit and loss statement for the year ending December 2010. It contained separate details for each business unit. We noted that the sum of all the net revenue amounts reconciled with Woodproducts Australia profit report at confidential attachment CTMS 5A, and

therefore could be traced to the BSG audited financial statements, an extract of which is also at confidential attachment CTMS 5A.

We were able to connect the sales data from A3 Sales Turnover to the detailed HFM profit and loss statement for each mill provided by CHH WPA. These files are included in **confidential attachment Sales 1A**.

6.2.1 Completeness and relevance of sales – conclusion

Having regard to the above, we consider that the revised Appendix A6 data and the Appendix A4 data submitted by CHH WPA represents reasonably complete and relevant accounts of its sales of structural timber during the period from July 2007 to June 2011.

6.3 Verification of sales to source documents

Prior to the visit to Mount Gambier we provided CHH WPA with a list of sales transactions that we selected from its Appendix A4 spreadsheet. The selected transactions covered various quarters, products and customers within the investigation period. We advised CHH WPA that we required supporting documentation to demonstrate the accuracy of the Appendix A4 sales data, and therefore the summary A6 sales volumes and net sales revenue figures.

In relation to each selected transaction, CHH WPA provided (where applicable) copies of:

- Commercial invoice (or adjustment note/credit note as applicable);
- Order acknowledgement;
- Delivery note; and
- Proof of payment (including bank statements and remittance advice where appropriate).

Copies of the documentation supporting selected sales are at **confidential attachment Sales 2**.

It was evident from our checks of source documents to the Appendix A4 sales data that the revenue amount reported in A4 was a net revenue amount, [REDACTED]

In relation to all selected transactions, we noted the invoice details matched the transaction details reported in the detailed sales spreadsheets at Appendix A4, which in turn linked to Appendix A6 summary sales data. On this basis, we considered the sales data provided in the application was reasonably accurate.

6.4 Export sales

The company does not export any like goods to the goods under consideration.

PUBLIC FILE VERSION**7 COST TO MAKE AND SELL****7.1 General**

CHH WPA explained that the costs reported in its Appendix A6 includes the costs of structural timber that are incurred by some of the legal entities discussed above in the "Corporate, organisational and ownership structure" section of this report.

Specifically, in its Appendix A6, CHH WPA provided cost to make and sell (CTMS) data, in the form of half-yearly aggregate amounts, and amounts per cubic metre. The data was presented for the period from July 2007 to June 2011. The data was broadly categorised and presented as:

- raw materials;
- direct labour;
- variable manufacturing overheads;
- fixed manufacturing overheads;
- depreciation; and
- selling, distribution and administration expenses.

The A6 appendices were presented separately for the following product groups:

- structural UT;
- structural H2;
- outdoor/treated;
- domestic packaging (including case or green-sawn, merch/industrial, and rough-sawn-kiln-dried [RSKD]); and
- export packaging.

and separately again within each of these product groups for each plant:

- Tumut;
- Lakeside;
- Jubilee; and
- Caboolture.

In relation to the data for the four mills listed above, we sought to trace the CTMS data that was submitted up through management reports to audited financial statements to establish confidence in the completeness and relevance of the data. We also sought to trace the cost data to source documents to establish confidence in the accuracy of the data.

We noted that CHH WPA's approach to calculating the unit cost to make (CTM) was to use total actual costs of goods manufactured, and divide this by the total production volume for the period. In terms of calculating unit cost to sell (CTS), its approach was to use the aggregate selling distribution and administration costs and divide by the sales volume. Verification of the total sales volume is discussed in the domestic sales section of this report where domestic sales, when considered in aggregate with all other sales, were reconciled to audited financial statements.

7.2 Revised CTMS data

During the verification exercise at Mount Gambier, three issues emerged that resulted in CHH WPA undertaking to resubmit revised CTMS data. The nature of these costing issues was such that we requested an opportunity to verify the revised data, and CHH WPA agreed. Accordingly, CHH WPA provided revised CTMS data on 4 October 2011 and we undertook additional verification at its Tumut site on 6 and 7 October 2011.

An outline of the three costing issues that led to revised CTMS data is provided below. This discussion is followed by the verification analysis that takes account of verification exercises conducted at Mount Gambier and Tumut.

Planer and kiln costs

In discussing the Appendix A6 costing data with CHH WPA, it became clear at a relatively early stage of verification that its approach to cost allocation was not distinguishing the costs of packaging grade from structural UT grade. Specifically, the costs of kiln drying and the costs of the planer process (which include the mechanical grading and sorting process) were not assigned directly (and only) to those products that incur such costs. CHHWPA had therefore understated the CTM&S the goods the subject of the application.

The effect was to generate unit costs of production that were identical for structural UT and for packaging when in fact the latter should be lower (per cubic metre) because much of the packaging had not incurred planer costs (although industrial grade does), while case and green-sawn product had also not incurred kiln costs. Structural UT and outdoor/treated, on the other hand, would always incur these costs. Accordingly, the cost pools associated with kiln drying and the planer process should not be distributed over such a large volume of goods.

CHH WPA agreed that it should recalculate its unit costs of production to assign kiln drying and planer process costs more directly to the appropriate

products. CHH WPA submitted these revised costs on 4 October 2011, and we verified that data on 6 and 7 October 2011.

7.2.1 Freight and despatch costs

Also quite early in the verification process, CHH WPA brought to our attention that while the sales data for all sites (except Oberon) had been reported in the sales data submitted, it had not accounted for the freight and despatch costs of its Yarram, Morwell, Myrtleford and Oberon sites. Revised costing that included these costs were submitted on 4 October 2011, and we verified that data on 6 and 7 October 2011.

7.2.2 Certain fixed costs and maintenance costs

During the verification exercise of tracing the cost data presented to the management reports, it became evident that two relatively small items had been omitted. We noted in relation to the Tumut plant for the six months ending December 2010, this omission represented less than 0.5% of the cost of goods sold. Given that CHH WPA had undertaken to resubmit revised costs for the reason above, we requested that this omission also be corrected. Revised costing that included these costs were submitted on 4 October 2011, and we verified that data on 6 and 7 October 2011.

7.3 Verification of costs to audited financial statements

With reference to the A6 appendices, we focused our cost verification on the costs for the Tumut plant in the six months ending December 2010. A copy of the Appendix A6 data for Tumut is reproduced at **confidential attachment CTMS 1**.

7.3.1 Raw materials

We asked CHH WPA to demonstrate how these raw materials costs could be traced through management reports to audited financial statements.

CHH WPA explained that the cost of raw materials comprises three elements:

- Logs;
- Residue recovery (primarily sales of chip, and to lesser extent sales of shavings; both treated as a negative cost); and
- Sundry income (very small).

Using a HFM report for all cost groups for Tumut for the second half of 2010, CHH demonstrated that the net raw material costs were consistent with the raw material cost presented in the Appendix A6 for Tumut. A copy of the HFM report is at **confidential attachment CTMS 2**.

CHH WPA also provided EBIT reports for Tumut for the six months ending December 2010, and the twelve months ending December 2010 to show the connection necessary for linking to annual reporting. The cost of logs, residue

recovery and sundry income could be traced without discrepancy to the EBIT reports, which form **confidential attachment CTMS 3**.

CHH WPA provided internal management reports for Woodproducts Australia, which has detailed breakdowns for WPA Timber, Plywood Australia, LVL and Pinepanels. We noted the WPA Timber management reports included an EBITDA report by site and that the EBIT figure for Tumut was not consistent with what was evident in the EBIT reports. However, to the extent this reconciliation was not accurate, the difference was resolved in the subsequent verification in Tumut. A copy of the internal management reports are at **confidential attachment CTMS 4**.

CHH WPA then demonstrated the link between these management reports and the BSG audited financial statements for the twelve months ending 31 December 2010, which are at **confidential attachment CTMS 5**. We noted the auditors (Deloitte) declaration that in its opinion the financial report of BSG:

- gives a true and fair view of the Group's financial position at 31 December 2010 and its performance for the year ended on that date; and
- complies with the Australian Accounting Standards.

In the Tumut verification exercise, CHH WPA provided a reconciliation of all costs of production that could be followed along the path of Appendix A6 (Tumut, for example); to the Tumut Operations Report by costs centre; to the Operations Report by cost category; to the HFM Report (P&L) for Tumut; to the HFM Timber Report; to the Wood Products Australia Profit Report; and finally to the audited financial statements for BSG. The documents that provide the link between Appendix A6 data, to management reports and audited financial statements, are at **confidential attachment CTMS 5A**.

We noted that CHH WPA's unit raw material costs had [REDACTED] in the period July 2009 to December 2009, and again in the period January 2011 to June 2011.

CHH WPA explained that in relation to the earlier period, this [REDACTED] was associated with [REDACTED] in Tumut where [REDACTED]. At the same time, Tumut mill was taking [REDACTED] for [REDACTED], and [REDACTED] from NSW, which was [REDACTED] freight costs. Also, for the Caboolture mill, 2009 was the time where CHH [REDACTED] greater proportion for log purchases from [REDACTED] parties [REDACTED].

In relation to the period January 2011 to June 2011, CHH WPA explained that the cost [REDACTED] was diminished due to the value of the Australian dollar. [REDACTED]

[REDACTED]. Furthermore, CHH WPA explained,

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Lakeside and Jubilee have been [REDACTED]

[REDACTED] [commercially sensitive information re log costs].

7.3.2 Direct labour, overheads, depreciation and other costs

In response to our request to trace the other cost elements to management reports and audited statements in the same manner, CHH WPA provided (at Mount Gambier) a more detailed HFM report for the six months ending December 2010 that shows all costs centres for Tumut to the EBIT level. CHH WPA showed how it categorised all costs (including a repeat of the approach taken for raw materials) to the Appendix A6 format and it colour-coded the cost categories in **confidential attachment CTMS 6**. This approach took account of:

- raw materials;
- direct labour;
- variable manufacturing overheads;
- fixed manufacturing overheads;
- depreciation;
- H2 treatment;
- outdoor treatment (H3 & H4) ; and
- selling, distribution and administration expenses.

We noted the EBIT result was consistent with that shown at confidential attachment 3. We also noted that each cost category from the HFM report could be traced to one of the Appendix A6 cost categories with a minor exception. During the reconciliation exercise at Mount Gambier, CHH WPA noted that two small line items had not been allocated to the Appendix A6 data. We noted that the sum total of these items is negligible (less than 0.5%) when expressed as a percentage of COGS for Tumut. In any case, these were amended by CHH WPA in the revised Appendix A6 data and reconciliation was verified in the Tumut meetings.

7.3.3 Selling, distribution and administration costs

The largest component of these costs is that relating to distribution. The distribution expenses include freight and despatch. In its revised Appendix A6 data, CHH WPA calculated an amount per cubic metre of domestic freight based on total freight costs for deliveries of all products from all plants, divided by the volume of sales of all products from all plants. This unit amount was

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multiplied by the sales volume for each of the four grades of the goods – structural UT, structural H2, packaging and outdoor/treated.

CHH WPA demonstrated how the freight and despatch charges, in sum, matched the Tumut freight and despatch charges in a HFM report extracted for all freight and despatch expenses by plant, which is at **confidential attachment CTMS 6A**. In turn, the total freight and despatch expenses for all plants (from 5A) could be traced to the Operations Report by cost category at confidential attachment CTMS 5A. As discussed above, the Operations Report was then linked to management reports and the audited financial statements.

We did not attempt to specifically trace the selling expense category to management reports and audited financial statements because we had already successfully traced EBIT figures in this manner. We inferred from the other successful reconciliations that the amounts for selling expenses will also reconcile.

We asked CHH WPA why selling and distribution expenses were allocated by



[Commercially sensitive information re freight costs]

Furthermore, we note that a large component of the selling and distribution charges is freight expenses. It would seem reasonable to allocate freight charges on [REDACTED]. CHH WPA advised that it had not allocated interest expenses in its Appendix A6 data. It explained that it would not normally attribute such expenses to the goods for any management purposes. CHH WPA also explained that it would be very difficult to calculate interest expenses in a consistent manner over the entire injury assessment period because of the complexity attached to company structures existing prior to 2009.

We noted that the net interest expense incurred by Woodproducts Australia, measured as a percentage of net revenue for 2009 and 2010, was [REDACTED]% and [REDACTED]% respectively. A copy of the Woodproducts Australia Profit report for 2009 is a **confidential attachment CTMS 6B**, and a copy of the same report for 2010 is included at CTMS 5A. We have not amended the Appendix A6 data to take account of interest expenses.

7.3.4 Completeness and relevance of costs - conclusion

Having regard to the above, we consider that the revised CTMS data submitted by CHH WPA represents reasonably complete and relevant

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accounts of the fully absorbed costs to manufacture and sell structural timber during the period from July 2007 to June 2011.

7.4 Verification of production costs to source documents

In terms of the production costs, we asked CHH WPA to demonstrate the links between the CTMS data contained in the Appendix A6 data and source documents. We selected the following cost components for this verification:

- Raw materials – logs, residue recovery and sundry income
- Manufacturing overheads; and
- Depreciation.

7.4.1 Production volumes

CHH WPA provided three production reports with data supporting the production volumes recorded in Appendix A6. These reports are provided in **confidential attachment 6C**:

- The first report provided raw data from 2007 onward that was subsequently summarised into each product e.g. structural UT and summarised into a six-month period;
- The second report provided October 2010 production performance data for Tumut that was broken down by week;
- The third report summarised the information from the second report into monthly blocks.

7.4.2 Raw materials – logs, residue recovery and sundry income

Logs

CHH WPA explained that its Appendix A6 cost category of 'raw materials' takes account of its log purchases, its sales of residue products, and its sundry income.

With reference to the HFM report at confidential attachment CTMS 2, CHH identified the three cost components of raw materials for the six months ending December 2010, which reconciled with the Appendix A6 data. We chose the month of December and asked CHH WPA to connect these costs to source documents. We focused on logs and residue recovery, noting the sundry income line was very [REDACTED] to the major two cost (and [REDACTED] cost) elements.

CHH WPA explained that the cost of logs is [REDACTED] [treatment of log costs] based on the relevant log invoices. Accordingly, we traced the variance amount of the HFM report to the underlying general ledger extract to identify

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how the variance amount was generated. This was further supported by a detailed 'data entry view' document that showed the standard cost (at actual volume) and the invoice amount which together generated the variance we were tracing. In turn, the invoice amount could be traced through its 'received in' and payment entries in the general ledger. CHH WPA also provided a copy of the relevant invoice, remittance advice, and bank statements. The amount paid reconciled with the invoice and back to the accounting entries and therefore up to Appendix A6.

As the invoice only showed high level data, CHH WPA also provided copies of the detailed 'Advice sheet' that is based on the sum of the deliveries – in this case for the month of November 2010. It also provided a 'Detailed Forest Report' which provides a breakdown of price and volume by class of logs. This detailed data also matched the invoice.

Copies of the source documents supporting the purchase of logs are part of confidential attachment CTMS 2.

To provide us an understanding of the variations between contracts for supply of logs, CHH WPA provided a schedule of its existing contracts. The schedule summarised, for each contract, the key terms and conditions. It was evident that contract terms were generally between [REDACTED]. Prices were generally per cubic metre against specified classes, and delivery was generally included. A copy of the schedule of log supply contracts is at **confidential attachment CTMS 7**.

CHH WPA also provided a copy of the relevant log supply contract; namely a long term supply agreement between [REDACTED] and Weyerhaeuser Australia Pty Ltd (since acquired by CHH WPA). The contract document included all material terms of the sale including specifications, price, delivery terms. The log supply contract is at **confidential attachment CTMS 7A**.

Residue recovery and sundry income

Within the HFM report (at confidential attachment CTMS 2) was an amount for residue recovery that included two components. The larger component was for sales of chip and the other was for sales of by-products. CHH WPA explained the latter category comprises mainly income for sales of shavings. We focused on the sales of chip for verification to source documents.

CHH WPA provided extracts from its general ledger to demonstrate the residue recovery for chip in November 2010 for Tumut. It also provided a copy of the invoice to the customer and evidence of payment, which is at **confidential attachment 7B**.

We noted that for Tumut, in the six months ending 2010, the value of the residue recovery was approximately [REDACTED]% of the cost of logs, thereby offsetting (or reducing) the raw material costs by that proportion and generating net raw material costs of around [REDACTED]% of the cost of logs.

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The source documents to support residue recovery data are at **confidential attachment CTMS 8**.

Given the relatively small figures that comprised sundry income, we did not pursue further verification of these amounts.

7.4.3 Manufacturing overheads

CHH WPA provided a schedule of monthly manufacturing overhead costs for the last six months of the year ending December 2010, for Tumut. We noted these amounts matched the 'fixed manufacturing overheads – overhead' cost component of Appendix A6.

We noted the breakdown was detailed containing many different line items, and the major cost components were allocations of repairs and maintenance costs to the various cost centres – debarker, sawmill, kiln & boilers, planer mill.

CHH WPA explained that most of these items are assigned to cost centres directly, but other more general overheads are allocated on the [REDACTED]

The documents supporting fixed overhead calculations are at **confidential attachment CTMS 9**.

7.4.4 Depreciation

CHH WPA provided a detailed report of its costs categorised by depreciation labour, maintenance, overheads and variable overheads. These costs were broken down by process (debarker, sawmill, kilns & boilers, planer mill, outdoor treatment, H2 treatment, rework). The total of the depreciation costs by process reconciled with the figure provided in the Appendix A6.

CHH WPA also provided copies of its general ledger to demonstrate the posting of depreciation expenses for each month, by process. These figures agreed with the detailed report discussed above. CHH WPA also provided a list of depreciation charges posted by asset within each process, which again reconciled. It also provided an asset register that contained a detailed description of each asset, acquisition date, accumulated depreciation and book value of the asset.

Copies of documents supporting the depreciation costs are at **confidential attachment CTMS 10**.

7.4.5 Accuracy of production costs - conclusion

Having regard to all of the above we consider the cost to make figures provided by CHH WPA are a reasonably accurate account of the actual costs to make structural timber during the period from July 2007 to June 2011.

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7.5 Verification of delivery and administration expenses to source documents

At our request, CHH [REDACTED]

[REDACTED] [commercially sensitive comments re delivery expenses]. Accordingly, we advised CHH WPA that we did not wish to undertake further verification of the freight costs. Instead, we confirmed that we were reasonably satisfied with the CHH WPA approach to calculating [REDACTED] in any given six-month period using the total freight costs pool, with total sales volumes as the denominator. We were similarly satisfied with the selling expense calculations.

7.6 Reliability of CTM based on only four CHH WPA sites

As noted earlier, the detailed cost data provided within Appendix A6 pertains only to Tumut, Jubilee, Lakeside and Caboolture production. We noted that these mills are not the only CHH WPA mills that produce structural timber and we sought to gain confidence that the data for these mills was reasonably representative for CHH WPA production of structural timber as a whole.

With reference to the sales data at confidential attachment Sales 1, we noted that the volume of sales, by each CHH WPA mill, in 2010, was as follows:

- o Structural UT – Jubilee ([REDACTED] %); Lakeside ([REDACTED] %); Tumut ([REDACTED] %) and Caboolture ([REDACTED] %) = total of CHH WPA SUT of [REDACTED] % (noting Oberon is another [REDACTED] % and Morwell another [REDACTED] %). So taking account of Oberon at high level would then account for [REDACTED] %, and taking further account of Morwell would then account for more than [REDACTED] %.
- o Structural H2 - Jubilee (XX%); Lakeside ([REDACTED] %); Tumut ([REDACTED] %) and Caboolture ([REDACTED] %) = total of CHH WPA SH2 of [REDACTED] % (noting Oberon is another [REDACTED] % and Morwell [REDACTED] %). So taking account of Oberon at high level would then account for [REDACTED] %, and taking further account of Morwell would then account for almost [REDACTED] %.

We asked CHH WPA why it had not included Morwell and PMO sites in the Appendix A6 data. CHH WPA explained that PMO manufactures a considerable proportion of finger-jointed product, which is a [REDACTED] product compared to other structural timber. CHH WPA explained that the Morwell site [REDACTED] that is not typical of most of its operations.

Notwithstanding its initial reasons for setting aside the cost and sales data for Morwell, CHH WPA provided us HFM Profit Reports for this plant, for the four years within the injury analysis period. In profit terms we noted that the trend

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for Morwell was not dissimilar to the profit trend of the other major mills for CHH WPA structural timber production. Copies of the HFM Profit Reports for Morwell and PMO are at **confidential attachment CTMS 11**.

In relation to Oberon (or Highland Pine Products (HPP) JV), CHH WPA provided an Appendix A6 that showed its transfer volumes and values (for CHH WPA transfers from HPP). We noted the average purchase price for the mix of products was [REDACTED] over the full injury period. We also noted, when compared with the average Tumut cost to make (for total products), the average purchase price from HPP was [REDACTED]. The Oberon transfer volumes and values over the injury analysis period are at **confidential attachment CTMS 12**.

CHH WPA also provided us its detailed sales data in relation to HPP for the second half of 2010. Our analysis of the data is tabulated below:

Timber	Sales Quantity	Sales Revenue	[REDACTED]
Appearance	[REDACTED]	[REDACTED]	[REDACTED]
Packaging	[REDACTED]	[REDACTED]	[REDACTED]
Structural H2	[REDACTED]	[REDACTED]	[REDACTED]
Structural UT	[REDACTED]	[REDACTED]	[REDACTED]
Timber WIP/Distressed	[REDACTED]	[REDACTED]	[REDACTED]
	100%	100%	100%

At the Oberon site, in the second half of 2010 structural H2 and structural UT represented a combined [REDACTED] % of sales quantity and represented a combined [REDACTED] % of sales revenue. They also represented [REDACTED] % [REDACTED].

CHH WPA also provided HFM Profit Reports for the Distribution centres to demonstrate that this performance has been [REDACTED] over the injury analysis period. CHH WPA explained that because the Distribution Centres now [REDACTED], the Distribution Centres' [REDACTED]. Copies of the HFM Profit Reports for the Distribution Centres are at **confidential attachment CTMS 13**.

Having regard to the information provided on costs and sales data for Oberon product; and to the performance of the Morwell site and Distribution Centres over the injury analysis period, it seems reasonable for CHH WPA to have relied primarily on the CTM data for its major four mills producing structural timber.

Costs to make and sell – conclusion

We consider that CHH WPA's revised half-yearly CTMS data in Appendix A6, is a reasonably complete, relevant and accurate reflection of the actual CHH WPA costs to make and sell structural timber over the period July 2007 to June 2011.

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We note that the level of detail provided for the CHH WPA share of the Oberon operations was not to the same degree as that for wholly owned operations, but given the arrangements of the joint venture we consider that what was provided was reasonable. We note the cost trends and levels for structural timber from the Oberon operation and from all other CHH WPA operations were not dissimilar.

Furthermore, we consider the exclusion of the Morwell site and Distribution Centres cost data from Appendix A6 has not materially distorted any analysis that is based upon the primary cost data that is presented in Appendix A6 for the four major CHH WPA mills producing structural timber.

Accordingly, we consider the costs to make and sell data for the four mills are suitable for analysing the economic performance of CHH WPA's structural timber operations from July 2007 to June 2011.

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8 ECONOMIC CONDITION OF CHH WPA

The company claimed that the allegedly dumped exports of structural timber caused material injury commenced in the 2009/10 financial year and that the industry had been injured in the form of:

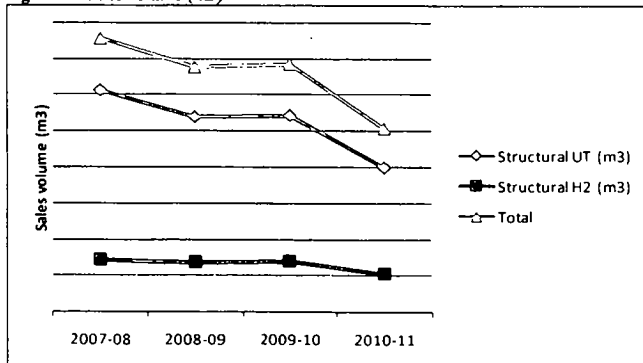
- reduced sales volume;
- reduced market share;
- price undercutting;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced production volume;
- reduced revenue;
- reduced employment;
- underutilised production capacity;
- deteriorating returns on investment;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

The following analysis examines each of the company's claims in detail.

8.1 Volume**Sales volume**

The following chart shows the sales volumes of structural timber for the company over the injury analysis period from 1 July 2007 to 30 June 2011.

Figure 1 - Sales volume (m3)



Our analysis of the data shows a decrease in CHH WPA's total sales volumes from 2007-08 to 2008-09. Total sales volumes recovered somewhat in 2009-10. In the 2010-11 financial year, total sales volumes decreased. Structural UT sales volumes decreased at a greater rate than structural H2.

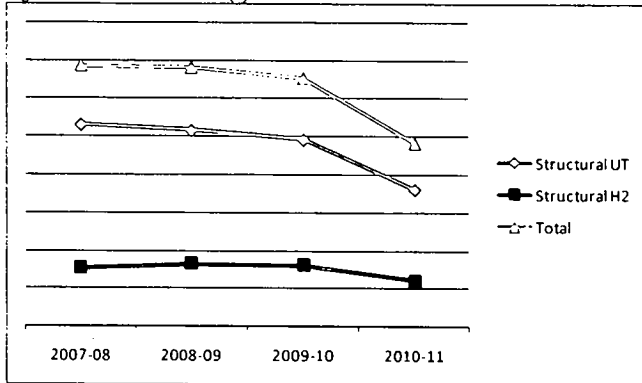
8.1.1 Market share

An analysis of the market will be completed following the verification of information from all Australian industry applicants.

8.2 Net Sales Revenue

The following chart shows the net sales revenue of structural timber for CHH WPA over the injury analysis period from 1 July 2007 to 30 June 2011.

Figure 2 - Net Sales Revenue (\$)



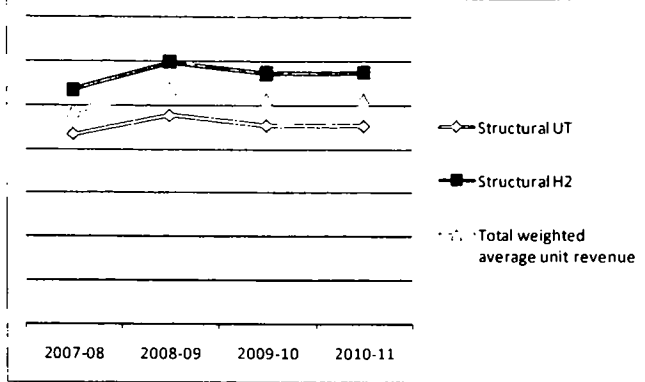
Net sales revenue for Structural UT product decreased each year during the injury analysis period. Net sales revenue for Structural H2 increased in the 2008-09 financial year but fell in subsequent financial years 2009-10 and 2010-11.

Total net sales revenue decreased slightly in 2008-09, and again in 2009-10, before a substantial decrease in 2010-11.

8.3 Price

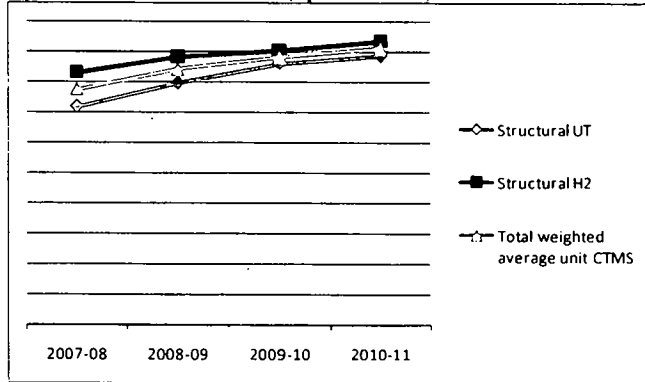
Price depression occurs when a company, for some reason, lowers its prices. Price suppression occurs when price increases for the applicant's product, which otherwise would have occurred, have been prevented. Movements in CHH WPA's unit prices and costs are illustrated in the following two charts.

Figure 3 - Unit Price (\$ per cubic metre)



The weighted average unit price for structural UT, and for structural H2, increased in 2008-09, fell in 2009-10 and remained steady in 2010-11.

Figure 4 - Unit cost to make and sell (\$ per cubic metre)



The weighted average unit CTMS for structural UT and for structural H2 increased in each year of the injury analysis period.

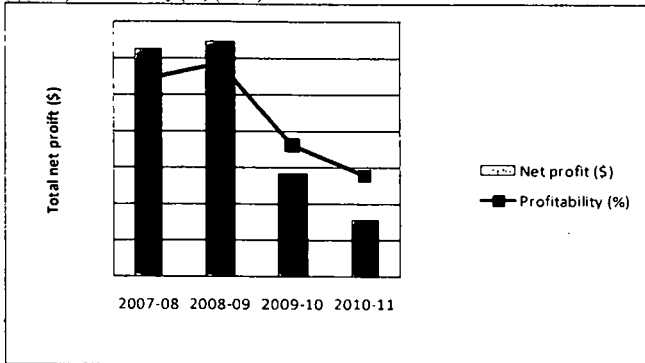
Customs and Border Protection considers that an indicator of price suppression may be the margin between revenues and costs. The margin between unit price and units CTMS has diminished over the investigation period.

The CHH WPA information also shows that unit prices increased from 2008-2009 to 2010-11 but not at the same rate that unit CTMS increased in the same period.

8.4 Profits and profitability

The company claimed that increased costs of producing and selling the product as a result of the allegedly dumped price had resulted in lost profits and profitability. The following charts show the movements in profits and profitability over the injury analysis period.

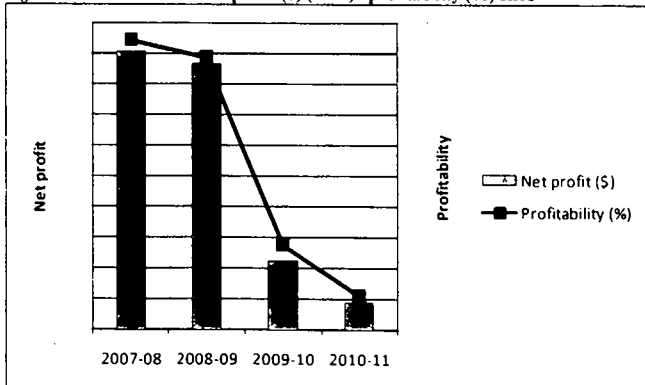
Figure 5 - Total net profit for structural UT and structural H2 (\$)(LHS) / Profitability (%) (RHS)



Our analysis shows that total profits from the company's domestic sales of structural UT and structural H2 increased in 2008-09 before decreasing sharply in 2009-10 and subsequently in 2010-11.

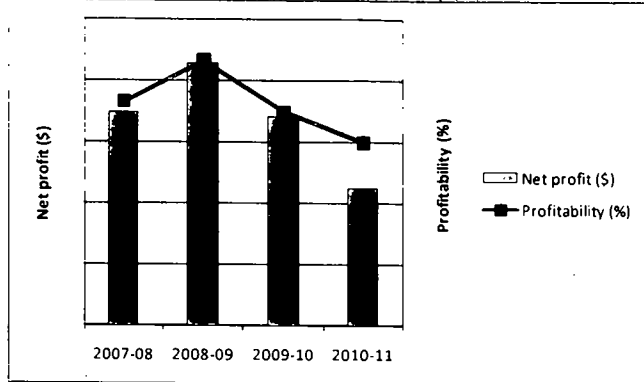
Our analysis shows that total company profitability from the company's domestic sales of structural UT and structural H2 increased in 2008-09 before dropping sharply in 2009-10 and again in 2010-11.

Figure 6 - Structural UT: net profit (\$) (LHS) / profitability (%) RHS



Net profit for structural UT product remained relatively stable over the 2007-08 and 2008-09 reporting period, but declined sharply in 2009-10. Profits declined further in 2010-11. Similarly, profitability declined in line with profits.

Figure 7 - Structural H2: net profit (\$) LHS / profitability (%) RHS



Net profit for structural H2 product increased in 2008-09, decreased in 2009-10 and decreased again in 2010-11. Profitability also increased and decreased in line with profits.

8.5 Other injury factors

CHH WPA included in its application information identifying assets, capital expenditure, return on investment, capacity, capacity utilisation, employment, productivity, stocks, cash flow measures and wages. At the visit, we discussed each of these factors with the company.

8.5.1 Assets

The data in confidential appendix A-7 of CHH WPA's application indicates that the value of assets relevant to the production of structural timber declined throughout the investigation period, to levels below the [REDACTED] financial year.

8.5.2 Capital investment

The data in confidential appendix A-7 of CHH WPA's application indicates that the value of capital relevant to the production of structural timber [REDACTED] throughout the period. There was a significant [REDACTED] in the financial year 2009-10 due to [REDACTED]

[REDACTED] [comments re CHHWPA capital expenditure over investigation period]. The company noted the sunk costs nature of capital expenditure on specific manufacturing requirements of its timber operations, that is the capital employed is specifically attributable to timber manufacture only.

8.5.3 Research and Development (R & D)

CHH WPA did not provide any data in confidential appendix A-7 of their application related to expenditure on research and development throughout the investigation period.

CHH WPA explained that the primary reason for this is that the company did not undertake any significant R&D in Australia in the investigation period under consideration.

Secondly, CHH WPA explained, the compulsory industry levy for R&D wasn't considered material to warrant specific examination. The levy is paid to a not-for-profit designated industry services body, in this case Forest & Wood Products Australia Limited, and is based on a "cents per cubic metre log cost". The levy rate applied to the production of forest and wood products is dependent on the type of product as listed below.

The company noted that any R&D levy costs are incurred as a raw material log cost.

Table 1 - Cents per cubic metre log cost paid to Forest & Wood Products Australia Limited

Product	Rate	
Other Softwood sawlogs(other than cypress sawlogs)	29 cents	per cubic metre
Cypress sawlogs	22 cents	per cubic metre
Hardwood sawlogs	29 cents	per cubic metre
Plywood and veneer logs	15 cents	per cubic metre
Wood panel pulplogs	10 cents	per cubic metre
Low grade softwood log	8 cents	per cubic metre
Softwood roundwood log	8 cents	per cubic metre
Export woodchip hardwood pulplogs	3. 5 cents	per cubic metre
Export woodchip softwood pulplogs	\$0. 00	per cubic metre
Paper pulplogs	\$0. 00	per cubic metre ³

8.5.4 Revenue

Appendix A3 shows that, during the injury analysis period that revenue from structural timber decreased from 2007/08 to 2009/10, and then falling sharply in the 2010/11 financial year. The revenue reported in 2010/11 was below the revenue reported in 2007/08. This is consistent with the trends charted in section 8.2, where net sales revenue for structural timber declined over the investigation period.

³ Source: Department of Agriculture, Fisheries and Forestry

8.5.5 Return on investment

The data in confidential appendix A-7 of CHH WPA's application indicates that the return on investment (calculated as the EBITDA result over asset value) declined sharply from █% in the 2008/09 financial year, with return on investment figures between █% for the 2008/09, 2009/10 and 2010/11 financial years.

8.5.6 Capacity

The A7 data provided by CHH WPA shows that during 2007-08 CHH WPA was operating close to █%. This had declined █% in 2008-09, █% in 2009-10 and █% in 2010-11. The data shows that the CHH WPA production volumes for like goods decreased from 2007-08 to 2008-09, increased to 2009-10 and then fell sharply in 2010-11.

8.5.7 Employment

The data in confidential appendix A-7 of CHH WPA's application indicates that total employment remained stable from the 2007-08 to the 2008-09 financial year. It declined in 2009-10 due to the reduction in shifts and staff numbers at Caboolture and Myrtleford and increased slightly in the 2010-11 financial year, although not back to 2007/08 levels.

8.5.8 Productivity

The data in confidential appendix A-7 of CHH WPA's application indicates productivity levels (measured as cubic metres produced over the number of full-time equivalent employees) fell from the 2007-08 to the 2008-09 financial year. Productivity recovered somewhat in the 2009-10, but fell sharply in the 2010-11 financial year.

8.5.9 Stocks

The data in confidential appendix A-7 of CHH WPA's application indicates that closing stock values were relatively stable over the years 2007-08, 2008-09, and 2009-10, then closing stock values increased substantially in 2010-11. The inventory turnover figures were relatively stable over the years 2007-08, 2008-09, and 2009-10, then decreased sharply in 2010-11.

8.5.10 Cash flow measures

The data in confidential appendix A-7 of CHH WPA's application indicates that accounts receivable for like goods increased in 2008-09, decreased in 2009-10 and decreased again in 2010-11. The receivable turnover remained relatively stable over the injury analysis period.

8.5.11 Wages

The data in confidential appendix A-7 of CHH WPA's application indicates that the overall wage bill for like goods increased in 2008-09, 2009-10, but decreased by almost one third in the 2010-11 financial year. We asked why

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the wage bill increased in 2009-10 from 2008-09 when employment fell. CHH WPA noted that this was due to employment figures being reported at and compared to the end of the period only. Specifically CHH WPA considered that the average calculation of employee wages for 2010-11 did not accurately reflect the timing of transitional changes at Myrtleford.

8.6 Conclusion – economic condition of the industry

Based on an analysis of the information contained in the application and obtained and verified during our visit, we consider that the company has experienced injury in the form of:

- reduced sales volume;
- price undercutting (discussed in the following section of this report);
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced production volume;
- reduced revenue;
- reduced employment;
- underutilised production capacity; and
- deteriorating returns on investment.

A conclusion on market share will be made following analysis of data gathered at visits to the other Australian industry applicants and the importers of the goods.

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9 CAUSATION

In the application for anti-dumping measures, the Australian industry estimated that material injury from the dumped imports of structural timber commenced in the 2009-10 financial year.

Volume factors

- CHH WPA claims that dumped imports are increasing in market share. The company provided a time-volume line graph overlaid with ABS import data of European structural timber, detached housing timber volume demand data and production volumes of Australian Plantation Products and Paper Industry Council (A3P) member-producers (CHH WPA, Hyne, Gunns and Wespine). This is provided in **confidential attachment GEN 4**. The company observed that European import volumes in particular continued to grow despite contracting housing demand. The data demonstrated that increased imports of structural timber grew its market share of the overall Australian market while the share of the Australian manufacturers declined.
- CHH WPA claims that the increase in imports of structural timber has been at the expense of its Australian market share, and it has suffered reduced production and sales volumes.
- CHH WPA also contended that, as a consequence, its lower sales and production volumes inevitably led to unit fixed costs that are higher than they would have been if volumes had been maintained. CHH WPA explained that although it had implemented productivity measures during the investigation period that should reduce production costs, the fact that production volumes decreased as a result of alleged dumping to such a degree meant that unit CTMS figures have increased. This is evident in section 8.3.

Price factors

- CHH WPA explained that many [REDACTED] customers buy structural timber from the exporters and from the Australia industry, and with this dual sourcing comes a high degree of price transparency and sensitivity. CHH WPA claims that the price undercutting it is experiencing from the imported goods at dumped prices is causing a decreasing CHH WPA share of their ongoing customers' business. At the verification visit CHH WPA provided a management assessment of the relative share of each customer's business. Over the investigation period, the company demonstrated its estimates of sales lost to imports. This information was collated from CHH WPA's sales force data estimates and provided in **confidential attachment GEN 5**.
- CHH WPA claims that price undercutting is prevalent by structural timber importers. In the application for dumping measures the industry provided a graphic representation of price undercutting by [REDACTED]

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imports, with price undercutting generally within the range of X to XX per cent over the period February 2009 to June 2011. CHH WPA regards the importer [REDACTED] as price setters in the Australian market. CHH WPA claimed that importers, such as [REDACTED] and [REDACTED], offer lower prices via ad hoc price specials and offer 'smaller' customers the same prices that may have otherwise been available only to 'larger' customers. Evidence of these weekly price specials were provided as part of the industry application.

- CHH WPA also claimed that dumped imports undercut Australian prices for structural timber in the domestic market and therefore Australian manufacturers were unable to raise prices in order to recover increasing production cost increases.

We consider the evidence presented by CHH WPA indicates that the Australian structural timber market has a relatively high degree of price transparency and price sensitivity. The evidence provided by CHH WPA suggests that it has experienced strong price pressure and price undercutting from the allegedly dumped imports, causing it to lose sales volume, and to respond by depressing and suppressing its prices. The declining production volumes of CHH WPA have caused its unit fixed costs to increase placing additional pressure on margins. As volume and margin are the drivers for profits, it appears that the competition with the allegedly dumped imports is therefore causing CHH WPA to experience reduced profits and profitability.

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10 UNSUPPRESSED SELLING PRICE

CHH WPA did not make any comment in relation to USP, but stated that it would make a separate submission on this issue at a later date.

11 ATTACHMENTS

GEN 1	CHH WPA operational sites
GEN 2	CHH WPA operational and legal structure
GEN 3	Explanation of related parties and distribution arrangements
GEN 4	Time-volume line graph overlaid with ABS import data of European structural timber, detached housing timber volume demand data and production volumes of Australian Plantation Products and Paper Industry Council (A3P) member-producers (CHH WPA, Hyne, Gunns and Wespine)
GEN 5	CHH examples of share loss to imports
Sales 1	Documents that demonstrate the reconciliation between Appendix 4 sales data and Appendix A6 summary sales data
Sales 1A	A3 Sales Turnover to HFM report
Sales 2	Documentation supporting selected sales
CTMS 1	Tumut Appendix A6 data
CTMS 2	Tumut HFM report for all cost groups
CTMS 3	Tumut EBIT reports
CTMS 4	Tumut international management reports
CTMS 5	BSG audited financial statements – twelve months ending 31 December 2010
CTMS5A	Documents – link between Appendix A6 data, management reports, audited financial statements
CTMS 6	Detailed HFM report for the six months ending December 2010 that shows all costs centres for Tumut to the EBIT level
CTMS 6A	HFM report – freight and despatch expenses by plant
CTMS 6B	Woodproducts Australia Profit report for 2009.
CTMS 6C	Three production reports with data supporting the production volumes recorded in Appendix A6
CTMS 7	CHH WPA schedule of existing contracts

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CTMS 7A	Log supply agreement between [REDACTED] and Weyerhaeuser Australia Pty Ltd
CTMS 7B	Invoice to customer; evidence of payment – residue recovery for chip November 2010
CTMS 8	Source documents to support residue recovery data
CTMS 9	Documents supporting fixed overhead calculations
CTMS 10	Documents supporting depreciation costs
CTMS 11	HFM profit reports – Morwell, PMO
CTMS 12	Oberon transfer volumes and values over the injury analysis period
CTMS 13	HFM profit reports – distribution centres