



Australian Government
Australian Customs and
Border Protection Service

R E P O R T

DUMPING INQUIRY

STRUCTURAL TIMBER
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

CASE No: 176

VISIT REPORT – AUSTRALIAN MANUFACTURER

GUNNS LIMITED

THIS REPORT AND VIEWS OR RECOMMENDATIONS CONTAINED WITHIN WILL BE
REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT CUSTOMS
AND BORDER PROTECTION'S FINAL POSITION.

September 2011

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1. BACKGROUND

On 5 August 2011, Building Supplies Group Holding Pty Ltd, Hyne & Sons Pty Ltd and Gunns Limited (the applicants) lodged an application seeking the publication of a dumping duty notice in respect of certain structural timber (structural timber) exported to Australia from the Republic of Austria, Canada, the Czech Republic, the Republic of Estonia, the Federal Republic of Germany, the Republic of Lithuania, Sweden and the United States of America.

The application alleges that structural timber exported from these countries has been exported to Australia at prices less than its normal value and that the dumping has caused material injury to the Australian industry 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.

Following consideration of the application, the Chief Executive Officer (CEO) of the Australian Customs and Border Protection Service (Customs and Border Protection) decided not to reject the application. Public notification of initiation of the investigation was made on 9 September 2011 (refer to Australian Customs Dumping Notice No. 2011/41, available on the Customs and Border Protection Internet site at www.customs.gov.au).

1.1 Existing measures

There are no existing measures applicable to structural timber exported to Australia.

1.2 Purpose of visit

The purpose of the visit to was:

- to discuss the applicant's claims relating to injury suffered due to the allegedly dumped imports from the nominated countries;
- to discuss procedural matters relating to the investigation;
- collect and verify information relevant to the investigation, including sales and cost information; and
- collect data to calculate unsuppressed selling price.

1.3 Meeting

Company:	Gunns Limited
Address	78 Lindsay Street Launceston TASMANIA 7250
Telephone	(03) 9212 7481
Fax	(03) 9212 7401
Date	27-29 September 2011

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<p>The following were present at various times of the meeting:</p> <p><u>Gunns Limited</u></p>	<p>Damon Wells Commercial Manager</p> <p>Chris Peterson CEO – Timber</p> <p>Christine Briggs General Manager, Sales & Marketing</p> <p>David Willatt General Manager, Supply Chain</p> <p>John Summers State Manager, Victoria and South Australia</p> <p>Shane Bransden Management Accountant</p>
<p><u>Customs and Border Protection</u></p>	<p>Mick Kenna Manager, Operations 3</p> <p>Emma Hatcher Manager, Strategic Review</p>

1.4 Company background

1.4.1 General

Gunns Limited was founded in 1875 in Tasmania as a building business. In the 1890s, Gunns entered into timber production – including sawmilling and hardware elements driven by the need to provide materials for their building business. Over the last century the company has expanded into a range of forest products, hardware retail outlets, wine production and managed investment schemes.

In 1986, Gunns became a public company listed on the ASX/200. Gunns has traditionally been a hardwood producer, but in 2007 purchased AusPine Ltd which specialised in softwood products, thereby expanding this element of their business. Gunns' softwood business trades as Gunns Timber Products.

In recent years Gunns has been seeking to consolidate back into its core timber businesses, through the divestment of certain business divisions such as wine, retail hardware etc.

Gunns has a total of 240 employees involved with its softwood timber business.

A Gunns company brochure and an extract from its website are at attachment 1.

Gunns prepared a presentation covering each item of the visit agenda. A copy of the presentation is at confidential attachment 2.

1.4.2 Accounting

Gunns Ltd uses the financial system "Maximise" which is supplemented by the Cognos TM1 reporting system to generate financial reports. Timbersmart captures all the transactional data – although given the evolution in Gunns' timber business, it is only recently that all elements of the timber business have been migrated into Timbersmart.

2. THE GOODS UNDER CONSIDERATION

The goods under consideration are defined as:

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

- Has a thickness exceeding 6mm; and
- Has a cross-sectional area of less than 120cm
- 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.

2.1 Tariff classification of the goods

The application states that the goods the subject of the application are classified to the following tariff subheadings and statistical codes of Schedule 3 of 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)

3. AUSTRALIAN INDUSTRY

3.1 Introduction

Gunns is one of eight structural timber producers in Australia. Other producers include the co-applicants Building Supplies Group Pty Ltd (BSG) and Hyne and Sons Pty Ltd (Hyne).

3.2 Gunns' structural timber business

Gunns advised that, at the time of the visit, it manufactures structural timber at sites located in Tasmania (currently the Bell Bay site) and in South Australia (the Tarpeena site).

The Bell Bay facility was purchased by Gunns in 2010 for [REDACTED] and subsequently fitted out to what Gunns described as a "state of the art" softwood timber processing facility. Prior to its purchase, the Bell Bay facility was running as a dual softwood/hardwood processing facility. This followed its earlier conversion from an MDF factory for which it was originally purpose built.

Gunns advised that the Tarpeena site had also undergone incremental changes to achieve efficiency improvements. [REDACTED]

[Commercially sensitive information concerning relating to production strategy].

Before its acquisition of Bell Bay, Gunns had produced softwood products at two mills in Tasmania (Tonganah and Ling Siding) at its Scottsdale facilities. These mills were older facilities that utilised dated timber production equipment and required more staff when compared to the Tarpeena and in particular Bell Bay facilities.

The Tonganah mill was closed in 2008 with some production being transferred to Ling Siding. The Ling Siding mill was then subsequently wound-down as the Bell Bay facilities have been ramped up. The last production from the Ling Siding mill was in the Jan-March 2011 quarter.

Gunns currently manufactures structural timber to the following grades: MGP10 (also classified as F7), MGP12 and MGP15. The timber is produced to a range of sizes from 70x35mm to 240x45mm, and in lengths commonly ranging from 6.0m (in 30cm increments) down to 2.4 metres.

At the visit Customs sought further information as to Gunns production of F5/F4 timber and enquired as to whether these products were like to the goods the subject of the application. Gunns explained that these products were used for studs and internal (non-load bearing) wall structures and for the purpose of preparing data had not been considered like goods (and instead included as "packaging" in Appendix A6).

Gunns further explained that at the stress grading stage if certain products didn't meet the MGP10 requirements some production might go to F5 and be sold for that purpose.

Customs suggested that the application would likely cover these goods, and accordingly Gunns F4/F5 production and sales of these goods should be reflected as like goods in their data. Gunns agreed to provide an updated Appendix A6 incorporating F4/F5 production as like goods.

3.3 Production process at Bell Bay facility

As a part of its verification, we inspected Gunns' softwood timber production facilities at Bell Bay. We were able to observe the green mill processing where logs entered the mill and were scanned by laser taking into account the dimension and properties of each individual log and then cut into various dimensions so as to maximise the productive value of each log.

Offcuts such as the outer layers of the logs and parts of the log with no structural properties were trimmed and processed into woodchips [REDACTED] which is sold to landscaping and similar businesses and sawdust and other waste ([REDACTED]) which is primarily used for fuel in the boilers for the kiln-drying process.

The green trimmed planks were then further scanned to assess density and then separated for kiln drying.

The timber boards are then placed on racks and kiln dried in one of the four on-site kilns at the Bell Bay facility. Gunns explained that these kilns were technologically advanced in that there is continuous monitoring of the process to ensure that the timber was not over-dried or left with too much moisture (which could affect structural properties).

Dried sawn timber is then further processed on the planer mill inside the plant which puts a finish on the goods (for example smooth dressed aka "DAR – dressed all round" or microline grooved – "rougner headed") and trimmed. In the planer mill, the product passes through a stress grader with each board tested for its structural properties and strength ratings using machine stress graders to determine the relevant machine grade pine (MGP) scale and marked according to that structural assessment. Lengths that had elements that were of a lower grade were either trimmed to length to ensure that the higher MGP grade was met, or downgraded to the lower of the MGP ratings, depending on the required product mix at the time of production. These products are then either wrapped for storage and transport or are transferred to the treatment facilities within the mill where a treatment such as H2 is applied, following which the product is then wrapped for storage and transport.

Gunns explained that at certain stages during the production process there are a range of finished goods (not like to the goods the subject of the application) for example:

- at the green saw stage there will be the production of “case” or pallet materials (which are sold commercially)
- at the dry sawn stage there will be the production of fence palings of certain dimensions (which are sold commercially)

The Bell Bay mill currently has a capacity of [REDACTED] of ‘log in’, which Gunns [REDACTED] to increase to [REDACTED].

3.4 Conclusion

There is an Australian industry producing like goods to the goods the subject of the application. Gunns production of structural timber products in F4/5, MGP10/F7, MGP12 and MGP 15 grades, across all size and length ranges, in both treated (to H2) and untreated form are like to the imported timber (the goods the subject of the investigation).

Gunns production of hardwood products (eg jarrah) and softwood products in the decorative and packaging categories are not considered like goods to the imported products the subject of the application.

4. AUSTRALIAN MARKET

Gunns advised that its business operations in structural timber are primarily focussed on supplying major markets close to their mills, the Victorian market ([REDACTED]) of structural timber sales in 2010/11. This focus is also reflected in Tasmania and South Australia. Gunns sales into Victoria are primarily in the MGP10 category ([REDACTED]).

Gunns also supply into the Tasmanian market (which is much smaller than the Victorian market) [REDACTED] ([REDACTED]) of market share). Gunns also have exposure in the West Australian market [REDACTED]. Compared to other suppliers, Gunns considers that they have far less exposure in the Queensland and NSW markets.

Gunns advised that, in addition to themselves, the Australian market is supplied by the following Australian entities:

- Carter Holt Harvey (a co-applicant) – [REDACTED]
[REDACTED]
[REDACTED]
[Confidential – discussion about company].
- Hyne (a co-applicant) – [REDACTED]
[REDACTED] [Confidential – discussion about company].
- AKD – [REDACTED]
[REDACTED] [Confidential – discussion about company].
- Wespine – [REDACTED]
[Confidential – discussion about company].
- Boral – [REDACTED]
[REDACTED] [Confidential – discussion about company].
- Plus, a number of smaller operations – ATP, Whiteheads, Central Highlands, Tasco

In addition to the Australian producers, Gunns identified two key importers ([REDACTED]) who they consider are now the price setters in the Australian market. Gunns suggested that pricing between these two entities has

become "ultra competitive" in order to increase volumes and gain market share. In the last 2-3 years Gunns considers there has been an escalation in price undercutting between these two entities which has resulted in unsustainable pricing levels which Gunns believe represent dumped pricing.

Gunns also identified other wholesalers who supply both imported and locally manufactured product to the Australian market. These entities ([REDACTED]) supply product to target customers who generally have a lower profile in the market.

4.1 Sales, marketing and distribution

Gunns considers that their distribution channels would be the same as other Australian suppliers and importers with the primary customers being:

- merchants/resellers;
- timber wholesalers; and
- frame and truss suppliers.

For its structural timber products, an estimated [REDACTED] % of Gunns production is supplied directly from the mills, with the remaining [REDACTED] % being supplied through Gunns warehousing facilities.

Gunns [REDACTED] has been established to enable a service choice for customers. Three warehouses (Melbourne, Adelaide and Perth) sell structural timber to the market.

Gunns considers that of its structural timber products:

- [REDACTED] % are supplied to merchants/resellers (including [REDACTED] etc);
- [REDACTED] % are supplied to timber wholesalers (who then supply merchants/framing suppliers); and
- [REDACTED] % are supplied to frame and truss suppliers (including pre-fabrication manufacturers – [REDACTED] would also fall into this category in relation to their trade supplies).

The end-users of the products include builders/tradespeople (who source products from both merchants and frame and truss suppliers) and DIY/home owners (who source products primarily from merchants).

Gunns stated that they do not have any contractual arrangements that provide for exclusive distributorships or set commission agents for its products. [REDACTED]

[REDACTED] (Commercially sensitive information re channel arrangements to market).

[REDACTED] [Commercially sensitive information on basis for pricing].

Gunns has a series of price lists which they attach to each customer – the price list that is determined for each customer takes into consideration issues such as:

- volume of product (including what % of the customer's business that Gunns has);
- spread of products;
- wallet share (the proportion of a customer's purchases) on offer;
- ability to move particular stocklines of which there is an oversupply;
- buying group arrangements ([REDACTED]);
- rebate structure for the customer;
- payment terms/credit risk.

[REDACTED] [Commercially sensitive pricing information for customers].

[REDACTED] [Commercially sensitive information concerning customer partnerships].

[REDACTED] [Commercially sensitive information concerning customer partnerships and supply].

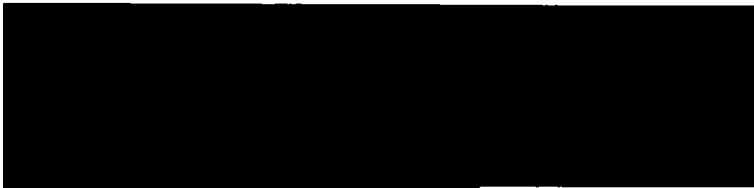
Gunns described their relationships with customers as a "standard B2B" relationship. Customers are invoiced on delivery of the product (ex-mill or from warehouse) and purchases are summarised in a month-end statement with payment due 30 days later.

Gunns has a range of rebate arrangements with certain customers. Rebates for each customer are shown in a separate column in Gunns' sales listing and are deducted from the gross invoice price to reach a net price. An example of the rebate calculation is at confidential attachment 3. Examples of supply agreements with major customers are at confidential attachment 4.

Gunns stated that they no longer have ownership or direct or indirect interest in any customer, noting however that former businesses owned (including Pine Design in Adelaide and some Mitre 10 holdings in Tasmania) have been sold to external parties. Evidence of Gunns' divestment of these assets is at confidential attachment 5. Gunns has retained ownership of one timber retailer in Perth which buys a small quantity of structural timber (about 20 m³ per month). This business will most likely be sold during the course of this investigation.

Gunns considers that customer needs in the market are (in priority order):

- supply reliability
- consistent fit-for-purpose quality
- competitive price.



[Commercially sensitive information concerning Gunns response to import pricing].



[Commercially sensitive information concerning Gunns response to pricing at a customer].



[Commercially sensitive information re pricing observation].

5. VERIFICATION OF FINANCIAL DATA

We explained to Gunns that we needed to be satisfied that the data submitted in its part of the application was complete, relevant and accurate. We also explained that the aim of our verification visit was to ensure that data submitted by Gunns traced to audited statements and to source documents.

At the meeting, Gunns provided a revised Appendix A6.1 with minor corrections (confidential attachment 6). A further revision was provided, correcting an error with the allocation of distribution expenses and including F4/F5 grade timber in the structural timber category (confidential attachment 7). Following a meeting, a final version was provided with corrections identified during the visit (confidential attachment 8).

5.1 Sales

5.2.1 Domestic sales

Relevance and completeness

Gunns' financial statements break down sales revenue according to sales of structural timber and other products. Following adjustments to Gunns appendix A4 and A6 to incorporate the F4/5 products which had previously been included as packaging and not the goods the subject of the application, we were able to reconcile the value of structural timber sales recorded in its financial statements for 2010/11 to the quarterly values recorded in appendix A4 and A6.

On this basis, we are satisfied that the sales data included in support of Gunn's portion of the application are relevant and complete.

Accuracy

We selected 8 sales transactions from Gunns' detailed sales listings for verification. The sales included sales of structural timber to customers in South Australia, Western Australia, Tasmania and Victoria. For each selected transaction Gunns provided a copy of the invoice, packing slip and despatch docket. For two of those transactions, Customs requested evidence of receipt of payment. These documents are at confidential attachment 9.

We are satisfied that the sales data provided by Gunns is accurate.

5.2.2 Export Sales

During 2010/11 Gunns exported [REDACTED] of structural timber (to complete an order for other goods being exported that were not the subject of the application). Gunns estimated that this volume was enough to build [REDACTED].

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5.2.3 Conclusion

Based on the verification carried out with Gunns, we are satisfied that the sales information provided is a reasonable representation of Gunns' sales of structural timber.

5.3 Cost to make and sell

In the application, Gunns provided separate cost to make and sell schedules in the format of Appendix A.6 for the following softwood products:

- 70mm x 35mm MGP10;
- 90mm x 35mm MGP10;
- 90mm x 45mm MGP10;
- MGP10 in sizes other than those above;
- Structural MGP12;
- Treated H2;
- Packaging;
- Treated H3;
- Treated sawn.

The first six categories fall within the description of the goods the subject of the application. The last three products fall outside the description.

We sought to verify the information included in the schedules, where possible to audited financial statements and source documents. We selected the 90mm x 35mm MGP10 product's cost to make and sell in the March quarter 2011 for detailed verification.

Gunns explained that the manufacturing costs presented were standard costs for each of the product categories. They are a combination of costs from each of Gunn's softwood production sites (essentially Tarpeena in South Australia and Bell Bay and Ling Siding in Tasmania). Gunns advised that it reviews its standard cost tables at the beginning of each financial year and incorporates any budgeted cost changes for the upcoming year. The cost tables are also reviewed as necessary to incorporate any significant cost changes throughout the year. Gunns stated that, for these reasons, its standard costs are a good reflection of actual costs. We sought to ensure that this was the case. An example of Gunns' current cost tables for 90mm x 35mm products is at confidential attachment 10.

Gunns allocated its costs to each cost element [cost allocation method] [REDACTED]. These percentages are at confidential attachment 11.

Standard cost calculations

Gunns provided a copy of its current cost table (confidential attachment 12). It shows that costs are recorded according to the following stages of production:

- green mill out;
- kilns;
- mould out; and
- pick.

The standard cost table shows that the same cost per m³ is ascribed to each product leaving the green mill, regardless of its commercial value or whether it will proceed to further processing or be sold as green 'case grade' timber. A different kiln cost is determined for each grade and thickness of timber which reflects the amount of time it will need to remain in the kiln. The final dressing cost varies according to the thickness of the timber. This reflects that more timber of thicker dimensions is produced per hour than thinner dimensions.

The 'pick' cost is a despatch cost represented mainly by labour and forklift costs.

Following the drymill processing, some timber does not meet the requirements of structural timber. This is referred to as 'merch' and is sold [REDACTED] for applications that are not structural. The cost of 'merch' in Gunns standard cost accounting is determined to be [REDACTED] of such timber. The remaining kiln and drymill costs are spread over the volume of structural timber produced.

Gunns provided an example of the detailed calculation of standard costs (confidential attachment 13). It relates to the budgeted standard costs for the Tarpeena plant for 2010/11. It shows how the log input cost per m³ is calculated by adding the log yard cost (labour and machinery costs) to the purchase price of logs and deducting the value of chips sold. The log cost is shown to be [REDACTED]. The greenmill recovery [REDACTED] which in the case of the Tarpeena plant, produces a cost of timber coming out of the green mill [REDACTED]. The greenmill production cost is shown to be [REDACTED]. Further losses occur in the kiln and planer mill processes resulting [REDACTED] of the input being available for sale. The kiln cost and planer mill cost are shown to be [REDACTED] and [REDACTED] respectively. Confidential attachment 14 provides an example of the calculation of variances.

Budgeted treatment costs [REDACTED] are incurred to treat the product to the H2 standard.

Production volumes

We asked Gunns to demonstrate from its records where the production volume of [REDACTED] of 90 x 35 untreated MGP10 product for the March quarter 2011 could be substantiated. Gunns provided a report from its systems showing a breakdown of production and total production costs per plant for the March quarter 2011 (confidential attachment 15). We noted that the sales volume for one of the mills (Kalangadoo in South Australia) had a negative volume and cost. Gunns explained that the product had been transferred to Tarpeena for H2 treatment and provided a report of the stock transactions recording the transfer. Confidential attachments 16 and 17

are screen prints from Gunns' [REDACTED] system showing the production volumes for the quarter. Confidential attachment 18 relates to the negative volume and cost for the Kalangadoo mill.

We are satisfied that the production volumes included in Gunns' Appendix A6.1 are accurate.

Reconciliation to audited financial statements

Gunns provided a profit and loss statement for the Softwood Division covering each quarter from July 2009 to June 2011 (confidential attachment 19). Gunns used revenue amounts to demonstrate how the profit and loss statements for the Softwood Division can be reconciled to the audited financial statements for the Gunns Group.

Gunns provided a breakdown of revenue for the Gunns Timber Products Division (confidential attachment 20). The revenue amounts for the Tasmanian and South Australian softwood operations agree with the revenue value in the consolidated Softwood Division profit and loss statement. Gunns then provided a quarterly profit and loss statement for Gunns Timber Products (confidential attachment 21). The revenue amount for the March quarter 2011 matches the total amount shown in the breakdown. The total revenue for the year is shown to be [REDACTED].

Gunns then provided a reconciliation (confidential attachment 22) showing how the amount of [REDACTED] is adjusted by a small amount of intercompany sales and by the addition of freight costs to arrive at the revenue figure of [REDACTED] reported for timber products in its consolidated financial statements (confidential attachment 23). Gunns also provided the segment reporting note to its preliminary final report for the Group showing revenue for timber products of [REDACTED].

On the basis of the information provided, we are satisfied that the financial information used to estimate the costs provided in Appendix 6.1 can be reconciled to audited financial statements.

Raw material costs

Raw materials used in the production of structural timber are primarily logs and chemicals used in the timber treatment. Gunns provided an extract from its ledgers summarising the value of log purchases in the March quarter 2011 (confidential attachment 24). The total log purchase value ([REDACTED]) equals the amount shown in Gunns' profit and loss statement for the quarter. We selected two suppliers and asked Gunns to provide invoices relating to the log purchases (confidential attachment 25). The invoice amounts matched the totals from the summary ledger.

We asked Gunns to provide evidence of its chip sales for the March quarter 2011. Gunns provided recipient created tax invoices from its main chip customer [REDACTED], showing sales of chips for February and March 2011 (confidential attachment 26). The invoices show a price of approximately [REDACTED] for the chips.

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In Tasmania, all logs are purchased from unrelated parties. [REDACTED]

[REDACTED] [Commercially sensitive information concerning purchases]. We asked Gunns to demonstrate that its log purchase price in South Australia was a market price. Gunns provided a comparison of its purchase prices for various size logs in South Australia [REDACTED]. We were satisfied that the prices between the two sources were similar. The comparison is at confidential attachment 27.

Freight costs

Gunns uses various carriers to transport its softwood timber products to customers. [REDACTED]

[REDACTED] [Commercially sensitive information relating to freight expenses]. Gunns provided an explanation of its freight cost allocation and examples from its Timbersmart system showing the allocation (confidential attachment 28).

Gunns provided a ledger showing its freight costs by carrier for the March quarter 2011 (confidential attachment 29). From the ledger we selected two carriers and Gunns provided account reports and matching invoices for the period (confidential attachment 30).

We are satisfied that Gunns has accurately recorded its distribution expenses in the costs provided at Appendix 6.1.

Comparison of actual and standard costs

As explained above, Gunns' costs are based on standard rather than actual costs. We sought to understand the significance of any variances between standard and actual costs.

Gunns' profit and loss statements allow a comparison between actual and standard costs. Gunns standard and actual costs for the Softwood Division for the March quarter 2011 were as follows:

[REDACTED]

We consider that Gunns standard costs reasonably reflect actual costs incurred in the production of structural timber.

Selling and administration costs

Gunns calculated its selling and warehousing expenses by dividing the selling and distribution cost in its profit and loss statement by the [REDACTED]. The calculation is shown at confidential attachment 31. We were able to trace the selling and distribution amounts to Gunns financial statements for the Softwood Division.

Finance costs

Gunns had not initially included finance costs in its Appendix A6.1. We advised Gunns that the costs should be a fully absorbed cost to make and sell structural timber. In its revised Appendix A6.1, Gunns included finance costs and provided a package to show how total finance costs from the consolidated profit and loss account were allocated to structural timber [REDACTED]. The supporting documents are at confidential attachment 32.

5.4 Conclusion

Based on the verification carried out with Gunns, we are satisfied that the financial and production data provided is a reasonable representations of Gunns' production volumes and the cost to make and sell structural timber.

6. CONDITION OF THE INDUSTRY

Gunns noted that they had been able to adopt [REDACTED] but have been unable to increase market share in line with their investment strategy with the two mills (Tarpeena and Bell Bay) and the recently expanded production capacity. In Gunns' view, the volume and price of imports has impacted their ability to achieve higher volumes in line with their investment strategy.

Gunns felt that Carter Holt Harvey was the first to feel the impact of imports – they have the greatest geographical spread and are large in comparison with Gunns. [REDACTED]

[REDACTED]. As a result Carter Holt Harvey has lost market share to importers.

In terms of their own sales, Gunns considers that overall they are down in volumes as to where they think that they should be in the market considering extra production capacity and stage of the business cycle, [REDACTED]. Gunns believes that while they have lost some sales volume, their primary loss has been in sales value.

Gunns believes that the impact of imports in the market could noticeably be felt around October 2010 when the volume of imports seems to have increased and at the same time the Australian producers were seeking a price increase to cover increasing costs.

Gunns noted that the presence of imports had affected their [REDACTED] because small customers were now able to access cheap prices from importers which were at the same prices [REDACTED]

[REDACTED] [Commercially sensitive information concerning customer pricing].

6.1 Volume trends

The following chart shows Gunns' sales volumes in the injury analysis period.

[Confidential – Chart]

Gunns' sales volumes fell in 2008/09 before increasing in 2009/10 and 2010/11.

6.2 Price and cost

Price lists

Gunns provided its customer price lists for 2011. We analysed the price lists for four structural timber products and found that list prices for most customers fell in the period March to August 2011. The price lists are at confidential attachment 33.

The analysis is at confidential appendix 1.

Major customer selling prices

Gunns provided an analysis of monthly net selling prices to its five major customers for the period July 2010 to September 2011 for the following popular structural timber products:

- Untreated 90mm x 35mm MGP10 4.8 metres;
- Untreated 90mm x 35mm MGP10 5.4 metres;
- Untreated 90mm x 45mm MGP10 4.8 metres;
- Untreated 90mm x 45mm MGP10 5.4 metres.

The analysis shows that prices to the customers fell by between [REDACTED] and [REDACTED] per m³ across the period.

The analyses are at confidential attachment 34.

Pricing generally

The following charts compares Gunns' average unit costs to make and sell and selling prices for untreated, treated and total structural timber sales.

[Confidential – Chart]

Gunns' average structural timber prices declined from 2007/08 to 2009/10 before increasing marginally in 2010/11. Gunns' average unit costs to make and sell structural timber rose marginally between 2007/08 to 2008/09 before falling in 2010/11.

6.3 Profits and profitability

The following charts show Gunns profits and profitability performance across the injury analysis period.

[Confidential – Charts]

The charts show that Gunns' profits fell sharply in 2008/09, remained relatively stable in 2009/10 and increased in 2010/11. Gunns' profitability decreased from 2007/08 to 2009/10 before increasing in 2010/11.

6.4 Other economic factors

We examined Gunns' data regarding other economic factors which may indicate injury as set out in Appendix A7 (confidential attachment 35). The factors reflect an increase in assets, capital investment and revenue, largely associated with the purchase of the Bell Bay mill. Employment declined in 2010/11 compared with levels in previous years.

Again, this seems to be associated with the technology and lower employment levels associated with the Bell Bay mill.

Other economic factors addressed in Appendix A7 do not appear to support or detract from the injury claims.

6.5 Causal link

Gunns claimed that the impact of allegedly dumped imports in the market had created price pressure, leading to a lowering of prices to retain sales. Gunns stated that customers are reluctant to refer to the prices of imported timber in written communications or price negotiations. Gunns maintained, however, that import prices were commonly discussed and that it had demonstrated its prices to major customers had fallen. Gunns stated that structural timber is largely a commodity product and that price is a very important factor in the purchasing decision.

Gunns was able to provide a written price offer that [REDACTED] [REDACTED] (confidential attachment 36). Gunns provided its own pricing to the same customer which shows that [REDACTED] prices significantly undercut Gunns pricing (confidential attachment 37). [REDACTED] had not yet purchased imported structural timber.

Customs and Border Protection will examine the relative prices of imported and locally produced structural timber as part of its investigation.

6.7 Conclusion

Gunns' performance over the injury analysis period is complicated by its purchase of the modern Bell Bay facility and the closure of less efficient sites. Overall, its sales volumes, revenue and profits and profitability have improved in 2010/11. Its average pricing remained relatively stable and average unit costs declined as efficiencies improved.

Gunns demonstrated a downward trend in pricing to its major customers which, if continued, would almost certainly impact on the company's profitability in the structural timber sector.

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APPENDICES AND ATTACHMENTS

Confidential appendix 1	Analysis of pricing lists
Attachment 1	Gunns company brochure and website extract
Confidential attachment 2	Presentation covering agenda items
Confidential attachment 3	Example rebate calculation
Confidential attachment 4	Example supply agreements with major customers
Confidential attachment 5	Evidence of divestment of related companies
Confidential attachment 6	Revised appendix A6.1 (version 2)
Confidential attachment 7	Revised appendix A6.1 (version 3)
Confidential attachment 8	Revised appendix A6.1 (final)
Confidential attachment 9	Documents for selected sales
Confidential attachment 10	Example current cost tables 90mm x 35mm products
Confidential attachment 11	Percentages used to allocate to cost items
Confidential attachment 12	Current cost table
Confidential attachment 13	Example calculation of detailed standard costing
Confidential attachment 14	Example calculation of variances
Confidential attachment 15	Breakdown of production volume and costs per plant
Confidential attachment 16	Intellidata screen print showing production volumes
Confidential attachment 17	Intellidata screen print showing production volumes
Confidential attachment 18	Evidence of negative volume and cost – Kalangadoo mill
Confidential attachment 19	Profit and loss statement – Softwood Division
Confidential attachment 20	Revenue breakdown – Gunns Timber Products
Confidential attachment 21	Quarterly profit and loss statement – Gunns Timber Products
Confidential attachment 22	Reconciliation of total revenue
Confidential attachment 23	Consolidated financial statements – segment reporting
Confidential attachment 24	Value of log purchases – March quarter 2011
Confidential attachment 25	Selected log purchase invoices
Confidential attachment 26	Invoices for sale of woodchips
Confidential attachment 27	Comparison of SA log prices
Confidential attachment 28	Explanation of freight allocation
Confidential attachment 29	General ledger – freight costs – March quarter 2011
Confidential attachment 30	Selected freight invoices
Confidential attachment 31	Calculation of selling and warehousing expenses
Confidential attachment 32	Finance costs calculation
Confidential attachment 33	Price lists
Confidential attachment 34	Analysis of price movements
Confidential attachment 35	Appendix A7
Confidential attachment 36	██████████ prices to ██████████
Confidential attachment 37	Gunns pricing to ██████████