



Australian Government
Australian Customs and
Border Protection Service

**INVESTIGATION INTO THE ALLEGED DUMPING OF
CERTAIN STRUCTURAL TIMBER**

EXPORTED TO AUSTRALIA FROM

**AUSTRIA, CANADA, THE CZECH REPUBLIC,
ESTONIA, GERMANY, LITHUANIA, SWEDEN AND
THE USA**

EXPORTER VISIT REPORT

WESTERN FOREST PRODUCTS

CANADA

November/December 2011

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REFLECT THE FINAL POSITION OF CUSTOMS AND BORDER PROTECTION

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1 ABBREVIATIONS

The Act	Customs Act 1901
The applicants	Building Supplies Group Holding Pty Ltd (BSG), Hyne & Sons Pty Ltd (Hyne) and Gunns Limited (Gunns)
CLS	Canadian Lumber Standard
CTMS	Cost To Make & Sell
Customs and Border Protection	Australian Customs and Border Protection Service
The delegate	The delegate of the CEO of the Australian Customs and Border Protection Service
EBIT	Earnings before interest and tax
ERP	Enterprise resource planning
EXW	Ex-works
FCA	Free carrier
FOB	Free On Board
GAAP	Generally accepted accounting principles of Canada
H2	Hazard level 2 – specification for preservative treatment to protected interior timber applications against the potential for termite attack
IFRS	International Financial Reporting Standards
■	■ [Western Forest Products' accounting software]
■	Western Forest Products' Sales system
m ³	Cubic metres
MGP	Machine grade pine
NIP	Non-injurious Price
PAD	Preliminary Affirmative Determination
S4S	Surface four sides
SEF	Statement of Essential Facts
WFP	Western Forest Products
structural timber	As defined in section 3.1 of this report
Tariff Act	Customs Tariff Act 1995
the goods/ GUC	the goods the subject of the application
the Minister	the relevant Minister, in this case the Attorney-General
USA	United States of America
USP	Unsuppressed Selling Price

2 BACKGROUND**2.1 Introduction**

On 5 August 2011, Building Supplies Group Holding Pty Ltd (BSG), Hyne & Sons Pty Ltd (Hyne) and Gunns Limited (Gunns) lodged an application¹ requesting that the relevant Minister (in this case the Attorney-General²) 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, the Australian Customs and Border Protection Service (Customs and Border Protection) restarted the twenty day period for considering the application.

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

Following consideration of the application, an investigation was initiated by Customs and Border Protection on 9 September 2011. 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.

At initiation, Western Forest Products (WFP) was identified as an exporter of certain structural timber from Canada. Customs and Border Protection wrote to WFP seeking their cooperation with the investigation and forwarded to them an exporter questionnaire.

The company completed and lodged a response to the exporter questionnaire. The response to the exporter questionnaire was supported by non-confidential and confidential appendices and attachments. Customs and Border Protection reviewed the completed and returned exporter questionnaire and placed the non-confidential version of WFP's response on the Public Record.

WFP's exporter questionnaire response was assessed and found to be sufficient to warrant a verification visit. Subsequently, Customs and Border Protection undertook a verification visit at their premises in British Columbia, Canada.

This report details the discussion and verification undertaken during meetings with WFP, and makes recommendations for relevant determinations regarding the company within this investigation.

¹ Section 269TB of the *Customs Act 1901*. References to any section or subsection shall be references to sections or subsections of the *Customs Act 1901* unless otherwise specified.

² The then Minister for Home Affairs may have had a conflict of interest in respect to the wood product industry and therefore this matter was referred to the Attorney-General.

2.2 Purpose of visit

The purpose of the visit was to verify information contained in the response to the exporter questionnaire submitted by WFP.

Information verified during the visit has been used to make preliminary assessments regarding:

- Identification of the exporter and the importer;
- export prices and normal values for products manufactured and exported by WFP; and
- dumping margins.

At the commencement of the meeting, we provided a brief explanation of the background to the investigation, the Australian anti-dumping process and the following key dates for the investigation:

- 8 November 2011, the earliest date when Customs and Border Protection could make a preliminary affirmative determination (PAD) and impose provisional anti-dumping measures;
- 28 December 2011, when (at the time of the verification visit) the statement of essential facts (SEF) for this case is due to be placed on the Public Record, setting out the facts on which Customs and Border Protection proposes to base the recommendations to the Minister; and
- 11 February 2011, when (at the time of the verification visit) Customs and Border Protection's Final Report and recommendations are due to the Minister.

We informed WFP that interested parties are invited to make submissions to Customs and Border Protection in response to the SEF within 20 days of that statement being placed on the Public Record. Timely submissions received in response to the SEF will be considered when compiling the report and when making recommendations to the Minister.

We explained our responsibilities in relation to confidentiality. We stated that we would:

- prepare a report of the visit (this report);
- provide WFP with the draft report to review its confidentiality and accuracy of facts and calculations; and
- following consultation with WFP about confidentiality and accuracy, prepare a copy of the report of the visit for the Public Record.

We advised that any information provided by WFP during the verification meetings would be treated as confidential unless we were advised otherwise.

2.3 Meeting – dates and attendees

Location	Western Forest Products Head Office 700 West Georgia Street Vancouver British Columbia Canada
Dates	22, 23, 24, 25, 28 November and 5 December 2011
WFP	Walter Low, General Manager, Logistics Bruce St John, General Sales Manager, Whitewoods and Japan Kevin Clayton, Director of Finance Andrew Chrystal, Senior Business Analyst, Lumber Gowan Armstrong, Manager, Lumber Accounting Marion McDiarmid, Export Documentation Logistics Supervisor Bob Logue, Operations Accountant Brad Flitton, North American Sales, Whitewood Richard Schroeder, Production Coordinator, Saltair Sawmill
Customs and Border Protection	David Turner, Manager, Operations 2 An Chew, Supervisor, Operations 2 Cienna Turpie, Supervisor, Operations 2

2.4 Cooperation and preliminary issues

WFP cooperated with the verification of details contained in the exporter questionnaire response and provided further information when requested.

We advised WFP that:

- our findings and recommendations would be subject to internal review;
- if the delegate of the Chief Executive Officer of Customs and Border Protection (the delegate) is satisfied that there appears to be sufficient grounds for publication of a dumping duty notice, Customs and Border Protection may make a Preliminary Affirmative Determination (PAD) and collect securities on future imports of product from WFP;
- if the delegate is satisfied that the dumping margin for WFP of the goods exported to Australia during the investigation period is less than 2%, Customs and Border Protection must terminate the investigation so far as it relates to WFP; and
- if the delegate is satisfied that there has been dumping from Canada, but the injury, if any, to the Australian industry that has been caused by that dumping is negligible, then Customs and Border Protection must terminate the investigation so far as it relates to Canada.

3 COMPANY INFORMATION**3.1 General**

WFP is a public company. Its principal activities include timber harvesting, reforestation, sawmilling logs into lumber and wood chips, and value added remanufacturing. WFP's operations, employees and corporate facilities are located in coastal British Columbia (BC), while its products are sold in more than 20 countries worldwide.

WFP has sawmills located in Ladysmith (Saltair), Chemainus, Nanaimo, Cowichan Bay, and Port Alberni. It also has [REDACTED] remanufacturing plants, [REDACTED] contract sawmill and [REDACTED] contract remanufacturing division. WFP advised that it has sales offices located in several countries (its Australian sales office closed in December 2010).

3.2 Accounting structure

WFP states that its financial reports are in accordance with Generally Accepted Accounting Principles (GAAP) of Canada. It advised that as of January 2011, it had adopted the International Financial Reporting Standards ("IFRS") as the basis for preparation of financial information and accounting. Financial statements are audited by KPMG and are publicly available.

WFP explained that it uses [REDACTED] as its general ledger accounting system and [REDACTED] as its management reporting system. It also explained that it also uses [REDACTED] as its lumber sales and inventory system and [REDACTED] as its log sales and inventory management system.

3.3 Related parties

WFP states that none of its customers of timber or external log suppliers are related to WFP. At verification we found no evidence to suggest this was incorrect. We note that WFP operates a Timberlands division which supplies logs to its sawmills. WFP explains that the logs sourced from its Timberlands division are transferred at market prices.

4 GOODS UNDER CONSIDERATION AND LIKE GOODS**4.1 The goods under consideration**

The goods the subject of the application (the goods) 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.

Further detailed information on the goods is contained in ACDN 2011/41.

During the verification visit, it was clarified that timber from the cedar species does not fall under the description of the goods.

4.2 WFP sales of the goods

WFP exports a range of structural timber products to Australia that fall within the definition of the goods. WFP advised that the log species used in the production of the goods is exclusively Douglas Fir (*Pseudotsuga menziesii*), and all sales to Australia during the investigation period were green (non-kiln dried) timber with a visual grade of at least F5 with a rougher-headed finish.

During the verification visit we identified some product lines on Australian export sales invoices that had a cross-sectional area of more than 120cm². These product lines were excluded from our analysis.

We note that the goods exported to Australia by WFP were:

- manufactured at its Saltair or Chemainus sawmills (**confidential attachment GEN 1**); and
- [REDACTED]³ [details of product model].

³ [REDACTED] [additional details of product model].

We excluded larger sizes of structural timber, such as 2x12, 4x12 and 6x12, as they have a cross-sectional area greater than 120cm². In addition, we also excluded utility grade timber, which are not suitable for structural applications.

4.3 Production process

The general production process for structural timber:

1. Log harvesting and sorting – Logs are harvested and sorted in the bush, delivered to dryland sorts where they are further sorted by species, size and quality before they are delivered to sawmills for processing in log booms.
2. Delivery to sawmill – Booms are broken apart and logs are subsequently fed into the mill using lifts and cranes.
3. Debarking and sawing – The logs are barked, then cut to length and conveyed to primary breakdown machine centres (headrigs or quad saws). This step separates the cant from the side boards.
4. Quad sawing or gang edging: standard sized cants are further processed at quad saws or gang edgers creating boards of a uniform thickness.
5. Resaw and edgers: Resaws and edgers are used to reduce thickness and trim to width.
6. Trimming and sorting: all boards are conveyed to the trimmer/sorter line where boards are trimmed to length and sorted by sizes into bins.
7. Lumber is removed from the sawmill by forklifts and stored in the yard for selling or further processing at the kilns or planer (Australian exports are not kiln-dried).
8. If required, additional remanufacturing (not applicable to Australian exports) is done off-site at internal remanufacturing divisions or third party plants. Products may be sized for accuracy and appearance, resawn to different sizes, re-trimmed, graded, sorted and wrapped before being moved to the shipping yard and/or loaded directly onto trucks for transport.

WFP advised that typical by-products include sawdust, wood chips and hog fuel.

4.4 Domestic sales of like goods

In its exporter questionnaire response, WFP only provided domestic sales of Douglas Fir timber as the goods exported to Australia are Douglas Fir species only. We explained that although all its export sales to Australia are Douglas Fir, like goods are not limited to specific species and therefore other species (i.e. hemlock) that is capable of being used in structural applications may also be like goods.

During the verification visit, WFP provided a spreadsheet containing of all its domestic sales of timber during the investigation period. We went through each

product description in the spreadsheet to determine whether it can be considered like goods. The result of this exercise is at **confidential attachment GEN 2**.

WFP explained that Canada is not its target market and that it is an export-focussed company. Therefore most of its structural timber sales in the domestic market are products which were unable to be exported.

4.5 Conclusion

We consider that structural timber sold by WFP domestically in Canada has characteristics that closely resemble the structural timber exported to Australia and are therefore like goods.

5 EXPORT SALES TO AUSTRALIA**5.1 General**

In the investigation period, WFP exported structural timber to the following Australian customers:

Customer	Volume (Mbf)
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

WFP explained that the majority of Australian product is manufactured as part of a Belgium program at the Saltair Mill. The Saltair Mill co-ordinator develops a 6 month production schedule which is reviewed every month. The schedule is based on current and historical demand and species logging forecasts from the Timberland Division.

The Belgium program is a special cut (**confidential attachment EXP 1**). The Belgium program results in a centre canter from which boards for Belgium are cut and side boards which are cut for the Australian market. The side boards for the Australian market represent [REDACTED]% of the volume from the Belgium program but [REDACTED]% of the value.

Australian exports represent less than [REDACTED]% of the business but is important because it contributes to the profitability of the Belgium program.

WFP advised that exports to China and Japan and sales of western red cedar on the North American market are the main focus of the business. China has replaced the US market for WFP.

5.1.1 Export sales data provided

In its responses to the exporter questionnaire, WFP provided an export sales spreadsheet listing each export sale within the investigation period (**confidential appendix EXP 2**). The spreadsheet included transactional information relating to:

- Customer name;
- level of trade;
- model (specifying species, dimension, grade, planed, rougher headed);
- product code;
- invoice number;
- invoice date;
- purchase order number;
- quantity (nominal Mbf);
- gross invoice value (\$CDN);
- net invoice value (\$CDN);
- ocean freight (including container stuffing) (\$CDN);
- marine insurance*3 (\$CDN);
- FOB export price (\$CDN/Mbf);
- inland freight (\$CDN);
- handling, loading and ancillary*1 (\$CDN);
- commission paid*2 (\$CDN); and
- net price (\$CDN/Mbf).

*1	Handling, loading and ancillary costs include bank fee, document fee, reloading charges, transportation fee, wharfage and handling charges
*2	Agency commission paid from 1 Jan 2009 to 31 Dec 2010 (■% of the value of each shipment F.A.S. vessel loading port. The F.A.S. value shall be determined after deducting insurance and freight and if container, container stuffing charges, from the C.I.F. value (see confidential attachment EXP 3)
*3	Marine insurance is ■% of ■% of invoice value
	No additional packaging for export (exported green)
	Fumigation insurance is paid by certain customers to cover additional fumigation costs incurred after importation to Australia. Fumigation insurance is ■% of invoice value.

5.2 Sales volume and value

Product	Grade	Total quantity (Mbf)	% total quantity	Total EP (\$CDN FOB)*	% total value
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Grand Total		[REDACTED]	[REDACTED]	[REDACTED]	

5.3 Export sales process

4. █ % of production is graded to a "2 and better". Remainder is graded to a "standard and better" which supplies the same market but gets a lower price.

availability (WFP advised there is no price difference between Australian customers as all are considered distributors);

- after volumes and prices are confirmed contracts are issued from WFP's system;
- Product for the Australian market is produced as part of the Belgium program as part of the planned production schedule for the Saltair sawmill. Product is stored in the Saltair sawmill yard until an order is received;
- Each pack is labelled with an identification number which identifies the customer. The mill assigns packs to fill an order;
- Packs exported to Australia are not wrapped as the timber is green. The packs are shipped as break bulk in the hold;
- the products are loaded onto trucks for transport to barges/ the dock;
- A delivery/packing list is issued when goods are despatched and entered into system;
- Packs are stacked at the dock (wharfage and handling fees are included in the ocean freight rate);
- The shipping company submits a 'mates receipt' (manifest) to WFP; and
- Customers are issued invoices, in Canadian dollars, when delivery of the goods commences from the mill.

5.4 Date of sale

We advised WFP that Customs and Border Protection usually regards the invoice date as the date of sale (i.e. the date that best represents when the material terms of the sale have been established) unless there is clear evidence to indicate that another date is appropriate.

5.5 Pricing and terms

WFP advised that:

- until December 2010 all of its sales to Australian customers were made through its selling office located in Australia (confidential attachment EXP 3). We noted that there are ■ sales in February 2011 made through the sales office. WFP explained that these sales were processed through the system in error. WFP stated that the sales office was paid a commission of ■% of the invoice value on all sales until the office was closed in 2010;
- all of its shipments to Australia were CIF terms with payment terms of cash at sight of documents. WFP advised that there are no contracts, agreements or price lists for export customers;
- most of its customers elected to pay a fumigation insurance levy as part of the invoice price to cover instances when AQIS requires shipments to be fumigated on arrival in Australia. This levy is included on the invoice; and

- there were no rebates, discounts, or other reimbursements paid to its customers. WFP advised that the invoiced price was the final price payable.

5.6 Export packaging

WFP advised that exports to Australia incur no additional packaging costs due to export product being sold green. WFP advised that exports to Australia are exported as break bulk.

WFP explained that it does not record the packaging costs separately for domestic and export sales.

5.7 Ocean freight and inland freight

WFP provided ocean freight and inland freight costs from sawmill to the port of Vancouver in the export sales spreadsheet. WFP provided a copy of the contract with the shipping company which covers the investigation period (**confidential attachment EXP 4**).

WFP advised that freight charges are paid to the shipping company monthly. WFP advised that it records an amount for ocean freight (as shown on the export sales invoice) against each shipment in its system in the form of an accrual. The monthly invoice received from the shipping company may therefore result in an adjustment in the form of negative invoices issued against the original invoice. We adjusted the export sales spreadsheet for negative invoices resulting from adjustments made to the cost of ocean freight.

5.8 Quarantine charges

WFP advised, because of the nature of the product (i.e. the product is exported green), it had an agreement with AQIS which allowed third party inspections of product being exported to Australia prior to loading to reduce the need for fumigation by AQIS. AQIS inspects the product on arrival in Australia and because of this certain customers pay WFP a fumigation insurance fee of ■% of invoice value to cover possible fumigation charges. The fee is included as a separate line on the export invoice.

WFP advised that despite the third party inspections, AQIS have required some shipments to be fumigated. Importers, who pay the fumigation insurance fee, are able to make a claim on WFP for the cost of the fumigation. WFP records these claims in its accounts as negative invoices which reduce the value of the original invoices. We obtained details of all negative invoices which affected sales during the investigation period and adjusted them accordingly.

The provider of the third party inspection service bills WFP monthly.

5.9 Verification of export sales to source documents

Prior to the visit we requested that WFP provide supporting documents for ten shipments to Australia we selected from the export sales spreadsheet.

WFP provided source document bundles for each of these shipments during the verification, containing the:

- commercial invoice;
- sales order;
- packing list;
- bill of lading;
- internal costing sheet for calculation of ocean freight charges;
- evidence of payment from Australian customer;
- invoice costing sheet; and
- evidence of land transport costs.

Document bundles for exports from WFP form **confidential attachment EXP 5**.

We compared the data contained within the source documents to the data in the export sales spreadsheet.

5.9.1 Sales volume and value

We were able to reconcile sales volume (in FBM) using the commercial invoices and packing lists, and sales value in Canadian dollars.

We observed that the invoices, bills of lading and evidence of payment provided for each invoice showed that WFP's Australian customers paid the purchase price of the goods and were the beneficial owner of the goods at time of importation to Australia.

5.9.2 Ocean freight and land transport freight

We observed that no shipping terms were recorded in the export sales spreadsheet. We noted that all selected shipments were listed as having CIF terms on their commercial invoices. WFP stated that all Australian export transactions are CIF. We also noted that all transactions in the export sales spreadsheet have an amount recorded for ocean freight and for 'inland trucking'.

We noted that the ocean freight and land transport amounts within the export sales spreadsheet differed from the amounts invoiced by WFP's ocean freight and inland freight suppliers for all of the selected invoices, however the discrepancies were not material.

5.9.3 Marine insurance

We observed that all transactions in the export sales spreadsheet have an amount recorded for marine insurance. We noted that an amount for marine insurance is recorded on the commercial invoices for all selected transactions.

5.9.4 Credit terms

We observed that the payment term on the invoices to Australian customers was shown as cash at sight of documents. We noted that evidence of payment provided by WFP for the selected transactions indicated that this was the case.

5.9.5 Handling and other charges

We observed that all transactions in the export sales spreadsheet have an amount recorded for 'handling, loading & ancillary' costs. WFP explained that these costs include bank fees, document fees, reloading charges, transportation fees, wharfage and handling charges.

5.10 Forward orders

WFP provided a list of its forward orders (**confidential attachment EXP 6**).

5.11 The exporter

We consider WFP to be the exporter of product shipped from Canada to Australia because WFP:

- is the manufacturer of the goods;
- owned the goods at the time of export;
- is listed as the supplier on the bill of lading;
- invoices Australian customers for the goods directly;
- arranges and pays the ocean freight and inland transport to ship the product to Australia;
- is the principal in the transaction located in the country of export from where the goods were shipped that gave up responsibility by knowingly placing the goods in the hands of a freight forwarder for delivery to Australia; and
- sent the bulk goods for export to Australia and was aware of the identity of the purchaser of the goods.

5.12 The importer

We noted that WFP's Australian customers:

- negotiates directly with WFP for the purchase of timber;
- are named as the consignee on the bill of lading; and

- arranges customs clearance, quarantine, logistics, and storage of the goods after they have been delivered to the Australian port.

We consider that WFP's invoiced Australian customers are the beneficial owners of the goods at the time of importation and are therefore the importer of the structural timber exported by WFP.

5.13 Arms length

In relation to all of WFP's export sales of structural timber to its Australian customers during the investigation period, we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price;
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider, subject to the findings of the importer visit report in relation to Australian customers, all of WFP's export sales to Australia during the investigation period to be arms length transactions.

5.14 Export price – preliminary assessment

In the case of export sales to Australia by WFP, we consider:

- that the goods have been exported to Australia otherwise than by the importer;
- that the goods have been purchased by the importer from the exporter; and
- the purchases of the goods were arms length transactions.

Therefore, we are satisfied that export price for direct export sales from WFP can be established under section 269TAB(1)(a).

Export price calculations are included at **Confidential Appendix 1**.

6 DOMESTIC SALES**6.1 General**

WFP advised that the Canadian lumber market is closely interwoven with the US lumber market and is generally referred to as the North American market.

WFP explained that the global financial crisis has had a dramatic affect on the North American lumber market due to the fall in the number of housing starts and the increase in the number of foreclosures. US housing is not expected to begin recovering until the end of 2013.

General research revealed that Canadian market prices for lumber are 30-40% lower than previous cycle highs. Benchmark prices are not expected to rise above US\$300/Mbf on a sustained basis before 2013 (prices are currently in the US\$220/Mbf range).

WFP advised that the lumber industry in British Columbia (BC) is divided into BC coastal and BC interior. BC coastal lumber is manufactured largely from Douglas Fir, Hemlock and Western Red Cedar species cut from old growth and secondary growth (trees can be up to 80 years old) forests. Whereas, BC interior lumber is manufactured from a mix of Spruce, Pine and Fir (SPF). BC coastal mills are set up differently to BC interior mills. BC coastal mills cut much bigger logs and are more concerned about lumber recovery from more expensive logs. BC interior mills cut smaller diameter logs and are more concerned about higher throughput of lower value logs. WFP stated that it runs about [REDACTED] logs a day, while the interior mills run 10,000 logs a day.

WFP explained that it sells mostly Hemlock species and planed S4S on the domestic market usually to treaters for use in decking. The product is sold 'green'. Hemlock is a strong timber and is suitable for using as bearers and joists in decks.

WFP provided detailed information on domestic sales of Douglas Fir species in its exporter questionnaire response.

We explained the definition of the goods and like goods to WFP at the verification visit in particular that the definition does not specify particular species (Section 4 'The Goods' refers). WFP subsequently provided a report from its Sales System ([REDACTED]) of total domestic sales of lumber products during the investigation period (**confidential attachment DOM 1**). We discussed with WFP lumber products sold domestically that were graded as structural. WFP then provided a report of total domestic sales of structural timber (**confidential attachment DOM 2**). Finally WFP produced a report from [REDACTED] [its sales system] of domestic sales of structural timber with a cross sectional area of 120cm² or less (**confidential attachment DOM 3**).

6.2 Levels of trade

WFP advised it sells the goods domestically to various customer types such as wholesalers, remanufacturers and distributors. WFP also makes some sales to

retailers. Sales involve either a direct truckload, primarily shipped on a trailer barge from mill via dock to a customer in Vancouver. Sales may also involve shipping on a regular barge from mill via dock to a reload terminal where the lumber is reloaded on truck trailers and shipped to customers.

WFP provided a list of level of trade and customer types in its exporter questionnaire response.

6.3 Sales to related parties

WFP advised that it has no relationship with any of its domestic customers other than a normal commercial relationship.

6.4 Domestic sales process, pricing and terms

6.4.1 General

WFP explained that it generally emails prices to groups of customers to provide a fairer playing field for its customer base generally. Market prices are however usually negotiated from historical records of previous sales being used as a benchmark. WFP then considers volumes and forward production.

WFP explained its sales process as follows:

- Orders are received via email PDF, fax or phone;
- WFP creates the order in the system with price, lumber code, tally, volume and delivery time;
- WFP sends via email a copy of the order to the customer and to the mill/remanufacturing facility;
- The mill identifies if the product is in stock or will be from forward production;
- The mill notifies the trucking company (if delivered);
- WFP cuts a delivery slip and ships to customer via truck barge or via dock through a regular barge for reloading in Vancouver on to a new truck trailer (direct truckloads are also shipped to customers on Vancouver Island; and
- The delivery slip generates a notification to the invoicing team in Vancouver who cuts the invoice.

WFP advised that the price is affected by the channel as delivered i.e. delivered, mill or reloads which includes cost of delivery to those reloads. Price is negotiated for each sale. The production co-ordinator examines the value of the whole run with the aim of making a margin on the entire bundle rather than each product.

WFP explained that when setting prices it is always cognisant of the net mill price which is used as a benchmark for domestic and international sales.

WFP explained that the North American market has a standard price for SPF lumber. Prices are influenced by a futures market for SPF. Douglas Fir 2x4 FOB Portland is

used to set market price. There is also a composite price for all lengths and types which indicates trends across North America.

WFP advised, however, that it does not sell into this market. WFP typically sells high grade cedar and high grade Douglas Fir. WFP said it cannot compete with structural commodity grade timber produced by the interior mills as the cost of kiln drying is too high.

WFP explained that its domestic sales consist of:

- Cedar;
- Hemlock as green lumber to treaters for use in decking; and
- Hemlock to reman facilities to be on-sold to Alberta for construction of timber roads.

WFP advised it doesn't sell Douglas Fir on the domestic market.

6.4.2 Delivery terms

WFP explained that its domestic sales are a mixture of mill (ex-works) and a variety of modes of delivery as described above.

6.4.3 Payment terms and discounts

WFP advised that payment terms are either [REDACTED] [payment terms] or [REDACTED] [alternative payment terms]. WFP advised that customers generally take up the early payment discount.

WFP advised that, except for the early payment discount, there are no other discounts, rebates, or commissions applicable to the domestic sales.

6.5 Verification of domestic sales to audited financial statements

We sought to trace the detailed domestic sales data provided by WFP in its response to the exporter questionnaire and in detailed sales reports provided during the visit through management reports to the audited financial statements to provide us with confidence in the completeness and relevance of the data.

WFP provided a spreadsheet of domestic sales of Douglas fir products in the format required by the Importer Questionnaire for the investigation period. We advised WFP that like goods includes species other than Douglas Fir that satisfy the definition of the goods i.e. coniferous wood capable of being used in structural applications that meets the stated size parameters. WFP then provided us with reports from [REDACTED] [sales system] that included sales of Douglas Fir and Hemlock (Hem Fir) (**confidential attachments DOM 4**).

WFP demonstrated how the sales volume and value of its domestic sales recorded in its sales system could be linked via its management reports to the audited financial statements (**confidential attachments DOM 5**).

WFP explained that data from [REDACTED] [sales system] is uploaded to its accounting system ([REDACTED]) at month's end. We selected the month of May 2011 for verification of domestic sales data. We attempted to reconcile the data stored in the sales system with the data in the accounting system using a management report titled 'Manufacturing 020 Statement'. We found a discrepancy in the total domestic sales value. WFP explained that [REDACTED] [sales system] is a live system and adjustments to previous periods can occur. The data for this verification visit was compiled in October 2011 whereas the data compiled for reconciliation between [REDACTED] [sales system] and [REDACTED] [accounting system] was compiled after invoicing process was closed off at May month end. (See Section 8 'Costs' for reconciliation from manufacturing 020 statement to financial statements).

We noted that the discrepancy was less than 1 percent and therefore not significant.

The revised detailed domestic sales spreadsheet is at **confidential attachment DOM 6**.

Verification of transactional data to audited financial statements is discussed in section 8.2.

Having regard to the above, we consider the detailed domestic sales data provided by WFP in its response to the exporter questionnaire is a reasonably complete and relevant in relation to the investigation period.

6.6 Verification of domestic sales to source documents

Having established the completeness and relevance of the domestic sales data, we then sought to trace that data down to source documents to ensure the accuracy of the data.

Prior to the visit we sent WFP a list of 8 domestic sales that we had selected from the domestic sales list provided with the exporter questionnaire response for closer examination. We asked that copies of source documents to support the transaction details be provided at verification. In relation to each of the selected transactions, WFP provided copies of the invoice, packing list and evidence of payment (**confidential attachment DOM 7**).

We found that:

- all the data contained in the domestic sales spreadsheet agreed with the source documents provided. We paid particular attention to quantities, prices, dates, delivery and payment terms, and inland freight amounts;
- some selected transactions had negative values. WFP explained that the negative transactions were either amounts being reversed or revised. Reversed invoice is a complete negative of the original invoice whereas revised invoice is an adjusted invoice. We noted that invoice numbers [REDACTED], [REDACTED] and [REDACTED] related to freight accrual adjustments; and

- a number of selected transactions were not domestic sales i.e. invoice no. [REDACTED] related to a sale to a Canadian company for export to [REDACTED] [third country], invoice no. [REDACTED] related to a sale to [REDACTED] [an overseas] company and invoice no. [REDACTED] related to an internal sale.

We asked WFP to provide copies of negative transactions after 30 June 2011 that related to sales made during the investigation period (**confidential attachment DOM 8**). We noted that there were two invoices which related to domestic sales of the goods. However one was found to be an internal sale and the second related to a cancelled order that had been re-ordered outside the investigation period. Both of these transactions were excluded from the domestic sales list.

We then selected 9 transactions from the domestic sales list relating to sales of Hemlock. WFP provided copies of invoices and costing sheets for the selected transactions (**confidential attachment DOM 9**).

As discussed earlier, WFP explained that domestic sales are sold on a number of different delivery terms including customer pick up (mill or ex-works), or delivered by truck (Super B or Tridem), barge or a combination of barge and truck. Freight is recorded in the sales list at standard with adjustments made as required. WFP explained that it utilises the [REDACTED] [reload facility], a third party provider storage facility on the mainland, in relation to some sales. The facility charges reload fees to load the product onto trucks.

WFP advised it records freight at standard cost. WFP advised it has contracts with freight companies and a rate sheet with standard fees for shipment between certain points in the supply chain.

WFP advised that freight invoices are issued monthly.

WFP does a reconciliation between freight paid and freight accrued about a month after the original invoice because freight has a number of variances, special prices and changed circumstances (e.g. if the truck has backhaul it will give WFP a discount). WFP advised there are different rates for different truck types and sometimes the type of truck requested is not available which leads to variances.

Due to the various delivery means with different costs and adjustments we have used the ex-works or Mill price.

As also discussed earlier, payment terms are [REDACTED]. In terms of evidence of payment, WFP provided copies from its customer account ledgers and copies of cheques when payment was made by this means. These details indicate that the price paid was the invoice price less the early payment discount.

Copies of the documents supporting the price paid in domestic sales are included at confidential attachments DOM 9.

Having regard to the above, we consider the detailed domestic sales data provided by WFP are a reasonably accurate account of domestic sales details over the investigation period.

6.7 Arms length

In respect of WFP's domestic sales we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, will, subsequent to the purchase or sale, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

We consider WFP's domestic sales of timber products are made in arms length transactions.

6.8 Ordinary course of trade

Although domestic sales may not be used as the basis for normal values, we still examined WFP's domestic sales to determine whether they were sold in the ordinary course of trade.

We compared the price paid for each domestic transaction with the corresponding monthly domestic CTMS for the investigation period. As we were testing the profitability of all domestic sales, we used the average monthly CTMS that was provided by WFP at the verification visit (see costs below). Where the sales were unprofitable we then compared the prices of those sales to the weighted average CTMS for the investigation period as a measure of whether the loss was recoverable.

We found that the volume of unprofitable sales and where the losses were not recoverable:

- with Hem Fir included, represented approximately █% of the domestic sales of Douglas Fir and Hem Fir; and
- with Hem Fir excluded, represented approximately █% of the domestic sales of Douglas Fir (see below).

Therefore, we determine that sales of unprofitable and non-recoverable domestic sales in both cases are not sold in the ordinary course of trade⁵.

6.9 Suitability of profitable sales

We found domestic sales of construction grade timber in the ordinary course of trade, and therefore were potentially suitable for use as normal values. The volume

⁵ Section 269TAAD

of domestic sales in the ordinary course of trade represents ■% of the volume of exports to Australia if both Douglas Fir and Hem Fir sales are included but only ■% if only Douglas Fir sales are included. The domestic sales volume if Douglas Fir only is included is therefore not suitable for use in determining normal value⁶.

We considered whether sales of Hem Fir (as well as Douglas Fir) should be included in domestic sales of like goods.

We noted that export sales of structural grade lumber to Australia are exclusively Douglas Fir. WFP provided a list of Hem Fir products that are graded as structural and satisfy the size parameters of like goods. These products include different grades, kiln dried, green, S4S, rougher headed and other finishers. WFP also explained that Hem Fir is a lower cost species than Douglas Fir.

We considered whether adjustments could be made to the domestic selling prices to take account of the differences between the species.

WFP provided a spreadsheet of all domestic sales of Douglas Fir and Hem Fir (structural grade and other). We confirmed that there was a price difference between goods made from Douglas Fir and goods made from Hem Fir, with Douglas Fir being sold at a higher average price.

WFP also advised that the product sold to Australia is known as a 'scantling' i.e. its nominal size is a ■ inch smaller than typical size lumber e.g. a nominal 2x4 becomes a ■ x ■. The Australian product is also cut to a specific range of lengths which are also not typical.

WFP explained that the Australian product is cut as part of the Belgium program from the sides of the log and not from the centre of the log.

Taking into account the above, we are of the view that sales of Hem Fir should not be included with sales of Douglas Fir when considering the suitability of profitable domestic sales for the purpose of determining a normal value.

Therefore we consider profitable domestic sales of Douglas Fir to be a low volume of sales⁷ and therefore we consider that the normal value of goods exported to Australia cannot be ascertained using domestic sales⁸ by reason of the low volume of sales⁹ relevant for determining normal value using domestic selling prices.

6.10 Sales by other sellers

WFP advised that there are other manufacturers of structural timber in Canada that make domestic sales. We noted that one other manufacturer, Teal Jones, is also participating in the investigation.

⁶ Section 269TAC(14)

⁷ Section 269TAC(14)

⁸ Section 269TAC(1)

⁹ Section 269TAC(2)(a)(i)

6.11 Domestic sales conclusion

Having regard to low volume of relevant domestic sales, we do not consider the structural timber products sold domestically by WFP are an appropriate basis for normal values.

7 THIRD COUNTRY SALES

In its exporter questionnaire response, WFP did not provide sales data for timber products exported to third countries.

At the verification visit, WFP provided a report of sales volume by geographical region during the investigation period. We noted that WFP exported to [REDACTED]

[REDACTED] [countries] during the investigation period.

As it seemed we were in possession of enough verified information from the submission and our visit to calculate normal values using a construction method we did not pursue further verification of third country export data.

8 COST TO MAKE & SELL**8.1 General**

In its Exporter Questionnaire Response, WFP provided costs to make and sell (CTMS) data for structural timber exported to Australia and sold domestically in Canada. However, we noticed that the domestic and export CTMS data were the same. WFP advised that it manufactures most of the goods for export to Australia from Douglas Fir logs consumed in its Belgium/scantling program at Saltair. Smaller volumes are pulled from Japan programs at Chemainus. WFP explained that the cost of timber from its Belgium/scantling run is the same regardless of the destination of the timber.

As discussed in section 4.4 above, we explained that like goods sold into the domestic market does not have to be the same species and that structural grade hemlock timber can also be considered as the goods. Therefore, during the visit, WFP provided additional CTMS data for hemlock manufactured at its Nanaimo, Cowichan Bay, Saltair, and Chemainus sawmills.

In regards to the goods exported to Australia, WFP based its CTMS information on value of production (VOP) reports. These reports detail the monthly cost of each species for each sawmill. WFP explained that in addition to its Belgium/scantling program at Saltair, it also uses Douglas Fir for its KD Keta (Japanese) program and the VOPs details separate costs for each program. From the VOPs, WFP extracted the cost information for the Belgium/scantling programs process at Saltair during the investigation period.

In the Exporter Questionnaire Response, WFP combined the Saltair and Chemainus sawmill costs of the goods to calculate a weighted average cost across the two mills to present a consolidated CTMS spreadsheet for the goods. However, we noticed that its raw sales spreadsheet identifies the sawmill of manufacture, allowing a comparison of the selling price to the cost of the exact sawmill that the timber was manufactured in. We advised WFP that this provides a greater level of accuracy and that therefore we will not require the consolidation of the cost data.

In its Exporter Questionnaire Response, WFP has broken down the CTMS components into the following general categories:

- Log costs;
- Conversion costs; and
- Selling, General and Administration costs.

The conversion costs are then further broken down into the following cost centres:

- Sawing;
- Planer;
- Drying/Kilns;

- Packaging & Shipping; and
- Overheads.

WFP advised that shipping refers to the movement of timber on its site, such as the transportation of timber from the sawmill to the planer.

WFP also recalculated the conversion costs into the following cost categories to comply with the Exporter Questionnaire:

- Wages & Benefits;
- Salaries & Benefits;
- Maintenance Costs;
- Supplies;
- Depreciation;
- Fixed Costs; and
- Allocated Costs.

WFP explained that this recalculation was done by pro-rataing the conversion costs based the cost category breakdown in its general ledger (**confidential attachment CTMS 1**).

In regards to the domestic costs information, WFP based its information on data from its general ledger. The general ledger contains monthly manufacturing cost information for each species in each sawmill. As such, WFP was able to provide monthly domestic cost information on each species for each sawmill separately.

In order to obtain confidence in the accuracy, completeness and relevance of WFP's CTMS data, we selected the cost of manufacturing Douglas Fir timber at its Saltair sawmill in the month of May 2011 for verification.

8.2 Verification of costs to audited financial statements

To verify the completeness and relevance of WFP's CTMS data, we attempted to reconcile the Saltair May 2011 Douglas Fir VOP (**confidential attachment CTMS 2**) to audited financial statements. A diagram of the reconciliation between documents is at **confidential attachment CTMS 3**.

From the VOP, we were able to match the total Douglas Fir log costs and mill conversion cost to *Mnfg 015 Division P&L Saltair Sawmill May 2011* report (**confidential attachment CTMS 4**). From this report, we were then able to match the total log cost and conversion cost for all species at Saltair in May 2011 to *Mnfg 060 Lumber Group Statistics & Costs 2011 by Month* report (**confidential attachment CTMS 5**), which details the costs and statistics for all sawmills in WFP's Lumber group.

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We were then able to match the total sawmill log cost for May 2011 in *Mnfg 060* (confidential attachment CTMS 5) to *Mnfg 021 P&L Lumber Group by Species May 2011* report (confidential attachment CTMS 6), however, there was a small variance for the total conversion cost. WFP provided a report from its general ledger showing the conversion costs in May 2011 for all of its sawmills and distribution centres (confidential attachment CTMS 7). Once the conversion costs for the distribution centres were added to the conversion costs for the sawmills (confidential attachment CTMS 5), we were able to match the total conversion costs to *Mnfg 021* (confidential attachment CTMS 6).

We were then able to reconcile the cost of goods sold (COGS) between *Mnfg 021* (Confidential Attachment 6) and its *May 2011 Income Statement* (confidential attachment CTMS 8) with a small variance of 0.01%.

WFP then provided us with the *April 2011 Income Statement* and *June 2011 Income Statement* (confidential attachment CTMS 9), which enabled us to sum the COGS and earnings before interest, tax, depreciation and amortization (EBITDA) for April to June 2011 and match it to the *Consolidated Income Statement* (confidential attachment CTMS 10). Finally, we were able to match the EBITDA from the Consolidated Income Statement (Confidential Attachment 10) to the *2011 Second Quarter Report* (confidential attachment CTMS 11).

We advised WFP that we are required to verify the cost data up to audited accounts, however, the 2011 Second Quarter Report (confidential attachment CTMS 11) has yet to be audited. Therefore, WFP provided us with *Mnfg 021 P&L Lumber Group by Species YTD December 2010* (confidential attachment CTMS 12), where we were able to match the EBITDA for the Lumber Group to the *YTD December 2010 Income Statement* (confidential attachment CTMS 13). Then finally, the total EBITDA for WFP shown on the *YTD December 2010 Income Statement* (Confidential attachment CTMS 13) matches the EBITDA shown in the 2010 Annual Report and audited statements (confidential attachment CTMS 14).

Having reconciled WFP's CTMS data to its audited financial statements, we are satisfied in the completeness and relevance of WFP's CTMS spreadsheet.

8.3 Verification of costs to source documents

To verify the accuracy of WFP's CTMS data, we selected timber production volume, log consumption volume, log cost, byproduct revenue and depreciation expenses for further verification down to source documents. As stated in section 8.1 above, the verification will focus on Douglas Fir timber at WFP's Saltair sawmill in the month of May 2011.

8.3.1 Timber production volume

We asked WFP to substantiate the production volume of ■ mbf for the Belgium/scantling program shown in its CTMS spreadsheet and the Saltair May 2011 VOP (confidential attachment 2). WFP provided us with three different reports:

- Return to Log (RTL) (**confidential attachment CTMS 15**) showing ■ mbf;
- Production Run report (**confidential attachment CTMS 16**) showing ■ mbf; and
- Daily Production Report (**confidential attachment CTMS 17**) showing ■ mbf over the ■ days.

WFP explained that the discrepancies are due to the reports tallying the volume of timber at different parts of the manufacturing process and differences in processing losses and any inventory adjustments.

WFP also explained that the production volume in the VOP is derived from a forced calculation, being closing inventory plus sales less opening inventory.

We consider WFP's explanation reasonable.

8.3.2 Log consumption volume

We asked WFP to substantiate the log consumption volume of ■ m³ for the Belgium/scantling program shown in its CTMS spreadsheet and the Saltair May 2011 VOP (**confidential attachment CTMS 2**). WFP provided a spreadsheet showing details of its consumption of log booms at Saltair in May 2011 (**confidential attachment CTMS 18**) and the total Douglas Fir log purchases sum to ■ m³. WFP also provided a log consumption calculation as part of its Saltair May 2011 VOP showing the split between its Belgium/scantling program and KD Keta program (**confidential attachment CTMS 19**), which shows the log consumption volume of the Belgium/scantling program matching the volume shown in the CTMS.

We then asked WFP how it calculates the split between the Belgium/scantling program and the KD Keta program. WFP referred us the RTL (**confidential attachment CTMS 15**) which reported the log consumption volume as ■ m³, a variance of less than 1%. It explained that it uses actual log consumption volume (as reported in **confidential attachment CTMS 18**) then proportioning the split between the Belgium/scantling and KD Keta programs according to the volumes reported in the RTL. WFP advised that the minor discrepancy is due to timing when the logs are purchased and processed through the sawmill.

We consider WFP's explanation reasonable.

8.3.3 Log cost

We asked WFP to substantiate the log cost of \$■ per m³ for the Belgium/scantling program shown in its CTMS spreadsheet and the Saltair 2011 VOP (**confidential attachment CTMS 2**). WFP referred us to the log boom consumption spreadsheet (**confidential attachment CTMS 18**) which also shows the total log consumption value for Saltair during May 2011 (\$■). The total log consumption value is then pro-rataed in the Saltair May 2011 VOP (**confidential attachment CTMS 19**) based on consumption volume reported in the RTL (**confidential attachment CTMS 15**), the same method as the calculation for the log consumption volume above. The total log consumption value for the Belgium/scantling program is then divided by the log

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consumption volume to derive the log unit cost. We were satisfied with WFP's methodology in calculating log costs.

We also sought to further verify the value of WFP's log cost down to source documents. From the log boom consumption spreadsheet (confidential attachment CTMS 18), WFP identified all the log booms that were purchased from an external supplier. From that list, there was only one log boom that was Douglas Fir, and WFP provided an invoice for that log boom (confidential attachment CTMS 20). The invoice showed that the log boom was purchased at \$[REDACTED] per m³. We observed that the internal log booms for the same grade were also valued at \$[REDACTED] per m³ (confidential attachment CTMS 21). Therefore, we were satisfied with the value applied to log costs.

8.3.4 Byproduct revenue

In WFP's CTMS spreadsheet, the revenue from byproducts were used to offset the cost of manufacturing timber. We asked WFP to substantiate the byproduct revenue of \$[REDACTED] per mbf for the Belgium/scantling program shown in its CTMS spreadsheet and the Saltair May 2011 VOP (confidential attachment CTMS 2). WFP provided us with *Mnfg 115 External Byproduct Sales May 2011* (confidential attachment CTMS 22) which shows all of its byproduct sales for May 2011. The sum of sales of Douglas fir by-products from the Saltair sawmill (\$[REDACTED]) divided by the total Douglas fir production volume at Saltair (both the Belgium/scantling and KD Keta programs) as reported in Saltair May 2011 VOP (confidential attachment 2) ([REDACTED] mbf) equates to \$[REDACTED], leaving a variance of less than 0.01%. WFP explains that the variance is because the Saltair May 2011 VOP (confidential attachment CTMS 2) allocates the revenue from the byproducts to the Belgium/scantling program and the KD Keta program based on log consumption, which gives a more accurate allocation of the byproduct revenue. We were satisfied with WFP's explanation.

We also sought to further verify the value of WFP's byproduct revenue down to source documents. WFP provided us with a spreadsheet showing a list of all byproduct sales from its Saltair sawmill in May 2011 (confidential attachment CTMS 23). The total value of the byproducts shown on this spreadsheet matches the sum of the byproduct revenue for the Saltair sawmill as reported in *Mnfg 115 External Byproduct Sales May 2011* (confidential attachment CTMS 22).

WFP also provided us with invoices for all the byproduct sales from the Saltair sawmill in May 2011 (confidential attachment CTMS 24). We were able to match the transactions on the byproduct spreadsheet (confidential attachment CTMS 23) to the invoices. Therefore, we were satisfied with the value applied to byproduct revenue.

8.3.5 Depreciation expenses

We sought to further verify depreciation cost as reported in the general ledger (confidential attachment CTMS 1) for the Saltair sawmill in May 2011. WFP provided us with the *Saltair sawmill fixed asset depreciation May 2011* report (confidential attachment CTMS 25) and we were able to match the total

depreciation amount from this report to the general ledger. Therefore, we were satisfied with the value applied to depreciation.

8.3.6 Conclusion

Having verified WFP's CTMS to source documents, we are satisfied in the accuracy of WFP's CTMS spreadsheet.

8.4 Verification of administration, selling and general expenses

In order to verify SG&A costs, WFP provided us with a report from its general ledger showing monthly SG&A expenses from July 2010 to June 2011 (**confidential attachment CTMS 26**). WFP also included its monthly total Lumber Group gross sales revenue, enabling SG&A to be calculated as a percentage of revenue for each month. We were able to match the May 2011 net SG&A and revenue amounts from this report to Mnfg 021 P&L Lumber Group by Species May 2011 report (**confidential attachment CTMS 6**). Therefore, we were satisfied with the allocation of SG&A.

8.5 Costs to make and sell – conclusion

We are satisfied that WFP's costs to make and sell spreadsheet is a reasonably complete, relevant and accurate reflection of the actual costs to make and sell structural timber during the investigation period by WFP.

We consider that these costs to make and sell are suitable for:

- determining a constructed normal value under section 269TAC(2)(c) of the Act; and
- assessing ordinary course of trade under section 269TAAD of the Act.

Details of WFP's CTMS are at **confidential appendix 3**.

9 NORMAL VALUE**9.1 Domestic sales not suitable**

As discussed in section 6 above, we found that there were insufficient volumes of domestic sales to determine normal values on the basis of domestic selling prices. Accordingly, normal value cannot be established using domestic selling prices¹⁰.

9.2 Constructed normal value

Based on the information provided by WFP, and the verification conducted on site, we are satisfied that the CTMS are suitable for determining a constructed normal value¹¹.

In constructing a normal value, we considered whether an amount for profit should be included.

WFP argued that the North American market is depressed and that all domestic sales of structural timber during the investigation period were made at a loss. Therefore, WFP claimed that no profit should be added to a constructed normal value.

As domestic sales of Douglas Fir in the ordinary course of trade were found to be not in sufficient volume for establishing normal value, we considered the most appropriate method for determining an amount for profit¹². We considered profit achieved on domestic sales of the same general category of goods which includes total sales of structural grade of Douglas Fir and Hem Fir excluding product with a cross section greater than 120 cm² and sales by the Customs Cut division¹³ and found a profit of ■%.

After analysing WFP's overall domestic sales performance of structural timber we conclude that an amount for profit should be included in the constructed normal value calculations.

9.3 Adjustments

As we have ascertained export prices and CTMS of the goods exported to Australia at ex-mill, we consider that no further adjustments to the normal value are necessary.

¹⁰ Sub-section 269TAC(2)

¹¹ Sub-section 269TAC(2)(c)

¹² Regulation 181A

¹³ The Custom Cut division focuses on converting logs to lumber on a custom basis to customer specifications. Unlike traditional lumber purchases, in which a customer will specify the volume of selected lumber products they wish to purchase, WFP's 'custom cut' customers typically acquire all the lumber products which are cut from a defined volume of logs.

9.4 Normal Value - conclusion

We are satisfied that because of a low volume of sales of like goods sold in the ordinary course of trade, we have ascertained constructed normal values under section 269TAC(2)(c)

Details of the constructed normal value calculation for WFP are the same as its CTMS at **confidential appendix 3**.

10 DUMPING MARGIN – PRELIMINARY ASSESSMENT

We compared the monthly weighted average export prices with corresponding monthly constructed normal values, for the whole of the investigation period, in accordance with section 269TACB(2)(a).

The weighted average product margin for structural timber exported to Australia by WFP during the investigation period was -15.1%. Details of this calculation are at **confidential appendix 4**.

11 LIST OF APPENDICES AND ATTACHMENTS

<u>Confidential attachments</u>	
<u>General</u>	
GEN 1	Product descriptions - goods exported to Australia
GEN 2	Domestic sales product descriptions
<u>Export Sales</u>	
EXP1	Details of Belgian cut program
EXP 2	Export sales during the Investigation Period
EXP 3	Details of Australian sales office
EXP 4	Shipping company contract during the Investigation Period
EXP 5	Selected export sales source documents
EXP 6	List of forward orders
<u>Domestic Sales</u>	
DOM 1	Total domestic sales of lumber products during the investigation period
DOM 2	Total domestic sales of structural timber during the investigation period
DOM 3	Domestic sales of structural timber with a cross sectional area of 120cm ² or less
DOM 4	Domestic sales of Douglas fir and Hemlock structural timber with a cross sectional area of 120cm ² or less
DOM 5	Audited financial statement
DOM 6	Revised domestic sales spreadsheet
DOM 7	Selected Douglas fir domestic sales source documents
DOM 8	Domestic sales transactions with negative value
DOM 9	Selected Hemlock domestic sales source documents

<u>Cost to make and sell</u>	
CTMS 1	General ledger excerpt
CTMS 2	Saltair May 2011 Douglas Fir VOP
CTMS 3	Reconciliation of Saltair May 2011 Douglas Fir VOP to audited financial statements
CTMS 4	<i>Mnfg 015 Division P&L Saltair Sawmill May 2011 report</i>
CTMS 5	<i>Mnfg 060 Lumber Group Statistics & Costs 2011 by Month report</i>
CTMS 6	<i>Mnfg 021 P&L Lumber Group by Species May 2011 report</i>
CTMS 7	Conversion costs of all sawmills – May 2011
CTMS 8	<i>May 2011 Income Statement</i>
CTMS 9	<i>April 2011 Income Statement and June 2011 Income Statement</i>
CTMS 10	<i>Consolidated Income Statement</i>
CTMS 11	<i>2011 Second Quarter Report</i>
CTMS 12	<i>Mnfg 021 P&L Lumber Group by Species YTD December 2010</i>
CTMS 13	<i>YTD December 2010 Income Statement</i>
CTMS 14	2010 Annual Report and audited statements
CTMS 15	Return to Log (RTL) report for Saltair in Mill May 2011
CTMS 16	Production Run report for Saltair Mill in May 2011
CTMS 17	Daily Production report for Saltair Mill in May 2011
CTMS 18	log boom consumption at Saltair in May 2011
CTMS 19	VOP showing the split between Belgium/scantling program and KD Keta program at Saltair Mill in May 2011
CTMS 20	Invoice for Douglas fir log boom – external purchase
CTMS 21	Invoice for Douglas fir log boom – internal purchase

CTMS 22	<i>Mnfg 115 External Byproduct Sales May 2011 report</i>
CTMS 23	Byproduct sales from Saltair sawmill in May 2011
CTMS 24	Invoices for all the byproduct sales from the Saltair sawmill in May 2011
CTMS 25	<i>Saltair sawmill fixed asset depreciation May 2011 report</i>
CTMS 26	Report from general ledger showing monthly SG&A expenses from July 2010 to June 2011
<u>Confidential Appendices</u>	
Confidential appendix 1	Export price spreadsheet
Confidential appendix 2	Domestic sales spreadsheet
Confidential appendix 3	CTMS and Normal Value spreadsheet
Confidential appendix 4	Dumping margin spreadsheet