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**Australian Government**  
Australian Customs and  
Border Protection Service

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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**

**THE TEAL-JONES GROUP  
CANADA**

November/December 2011

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

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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)
ACDN	Australian Customs Dumping Notice
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
m <sup>3</sup>	Cubic metres
MGP	Machine grade pine
NIP	Non-injurious Price
PAD	Preliminary Affirmative Determination
S4S	Surface four sides
SEF	Statement of Essential Facts
Teal-Jones	The Teal-Jones Group
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 application<sup>1</sup> requesting that the relevant Minister (in this case the Attorney-General<sup>2</sup>) 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](http://www.customs.gov.au).

At initiation, the Teal-Jones Group (Teal-Jones) was identified as an exporter of certain structural timber from Canada. Customs and Border Protection wrote to Teal-Jones seeking their cooperation with the investigation and forwarded 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 Teal-Jones' exporter questionnaire response and placed a non-confidential version of the response on the Public Record.

Teal-Jones' 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 Teal-Jones' premises in British Columbia, Canada.

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

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<sup>1</sup> 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.

<sup>2</sup> 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.

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### 2.2 Purpose of the visit

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

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 Teal-Jones; 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 Teal-Jones 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 Teal-Jones with the draft report to review its confidentiality and accuracy of facts and calculations; and
- following consultation about confidentiality and accuracy, prepare a copy of the report of the visit for the Public Record.

We advised that any information provided by Teal-Jones during the verification visit would be treated as confidential unless we were advised otherwise.

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2.3 Meeting – dates and attendees

<b>Location</b>	The Teal-Jones Group Administrative Offices 17897 Triggs Road Surrey British Colombia Canada
<b>Dates</b>	30 November, 1 and 2 December 2011
<b>Teal-Jones Group</b>	John Burch, Vice President, Sales and Marketing Len Van Ryswyk, Sales Manager Greg Ross, Senior Accountant Jason A. Meneghin, Accountant Byron Steckler, Accountant
<b>Customs and Border Protection</b>	David Turner, Manager, Operations 2 An Chew, Supervisor, Operations 2 Cienna Turpie, Supervisor, Operations 2

2.4 Cooperation and preliminary issues

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

We advised Teal-Jones 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 Teal-Jones;
- if the delegate is satisfied that the dumping margin for Teal-Jones 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 Teal-Jones; 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**

The Teal-Jones Group is a privately owned company (partnership) founded in 1946. Its headquarters are located in Surrey, British Columbia, Canada. The company employs over [REDACTED] people across four divisions:

- Forestry and Log Supply;
- Whitewood Lumber;
- Red Cedar Lumber; and
- Red Cedar Shakes, Shingles and Sidewalls.

Teal-Jones has logging, timber harvesting and log sorting operations located in [REDACTED] in British Columbia, Canada.

Teal-Jones has sawmills located in [REDACTED] and a planer mill located in [REDACTED].

The company informed us that the J.S. Jones small log sawmill located in [REDACTED] is the mill used for production of the goods exported to Australia.

**3.1.1 Accounting structure**

Teal-Jones stated that its financial reports are in accordance with Generally Accepted Accounting Principles (GAAP) of Canada and its financial statements are audited yearly by [REDACTED]. [auditor].

Teal-Jones advised that it uses the [REDACTED] system as its financial accounting system. It explained that there are also a number of separate systems, including inventory and payroll, where summaries from each of these systems are uploaded monthly into [REDACTED].

Teal-Jones advised that its lumber inventory and sales system was switched from [REDACTED] to [REDACTED] at the beginning of 2011.

**3.2 Related parties**

Teal-Jones stated that none of its customers or suppliers are related to Teal-Jones. During the verification visit, we did not find any evidence to suggest that this was incorrect.



**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 120cm<sup>2</sup>; 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 Teal-Jones' sales of the goods**

Teal-Jones exports a range of structural timber products to Australia that fall within the definition of the goods. Teal-Jones 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 F7 with a rougher-headed finish. Teal-Jones explained that the timber exported to Australia was phyto-sanitised or heat treated in a kiln for quarantine purposes (not kiln dried) and put through the planer to give a rougher-headed finish.

We determined that all F7 or better timber fell within the definition of structural timber in the goods description. We also identified some export sales of timber that had a cross-sectional area of more than 120cm<sup>2</sup> which were excluded from the analysis. We noted that all of Teal-Jones' exports to Australia were manufactured at the small log mill (**confidential attachment GEN 1**).

**4.3 Sawmills**

Teal-Jones produces a variety of timber products in its whitewood, red cedar lumber and red cedar shake, shingles & sidewall divisions. We noted that timber made from cedar does not fall within the description of the goods and is not the subject of this investigation.

Teal-Jones' whitewood lumber division produces timber from two sawmills: the small log sawmill and the Stag Timber large log sawmill. Products from the whitewood

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lumber division are produced for the export market including [redacted], Australia<sup>3</sup>, [redacted] [countries].

**4.3.1 Small log mill**

The small log mill primarily produces timber in sizes of 2 x 4, 6, 8, 10 and 12 from Hemlock and Douglas Fir, as well as some Sitka Spruce.

Surfaced four sides (S4S) grades include:

- Kiln Dried Hemlock, Douglas fir, and Sitka Spruce;
- Machine Stress Rated Lumber (MSR);
- Premium and Select Structural;
- #2 and Better, #3; and
- Economy.

The small log mill product line includes:

- [redacted]
- [redacted]
- [redacted]
- Scantlings for Australia;
- [redacted]
- [redacted]
- [redacted]
- [redacted]

**4.3.2 Large log mill**

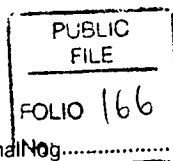
The large log mill whitewood product line includes a wide range of sizes from 2" x 2" to 12" x 24" cants.

Grades include:

- [redacted]
- [redacted]
- [redacted]
- [redacted]

<sup>3</sup> The goods are produced in the J.S Jones small log mill.

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### 4.4 Production process

Teal-Jones' general timber production process is described below for the small mill:

#### 1. logs

- Teal-Jones has [REDACTED] logging divisions: [REDACTED]
- [REDACTED] % of logs harvested by Teal-Jones are used internally. Teal-Jones sells the remainder on the Vancouver log market;
- Teal Jones also purchases log booms on the Vancouver log market;
- Log booms are transferred/ purchased at Vancouver log market prices
- Log boom cost includes the cost of the logs and the cost of towing the logs from log boom marshalling points
- Booms are towed to the mill

#### 2. sawmill

- Crane – logs are picked up by crane and put on the deck at the mill site.
- Debarker – bark is removed from logs by machine.
- Cut-off saw – each log is 'bucked' or cut to lengths while still whole.
- Log bin – logs are directed through the production process according to their intended end product.
- Chip and saw ("CNS") – the CNS takes off the outer curved part of the log and rotates the log into the correct position.
- Canter Line – separates the sideboards from the centre piece, or cant. There is no targeted domestic market for the side boards. The side boards are sold with as little further processing as possible
- The cant may be directed to one of three lines for cutting into boards:
  - i. OE (Optimising Edger) if the timber is a side board; or
  - ii. Bull edger if the timber is an oversized cant; or
  - iii. VDA, a quad saw for normal size cants.
- Resaw – timber is routed to the resawer if it is not cut to satisfaction at any stage after the canter line. It may be sent to total resaw, or if the defect is minor to the Pony Edger.
- Grading – visual grading: graders inspect the boards to identify those which do not satisfy visual grading requirements, for example if the board has a hole in it or has excessive wane. Defective boards are sent back to resaw if they are able to be corrected.
- Trimming – boards enter the trimmer to ensure a uniform finish.
- J-Bar sorter – sorts the boards into bins by dimensions and lengths.

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- Packaging – boards are packaged using two plastic straps, laths and paper labelling. All boards at this stage are rough green. After packaging, the rough green boards may go on to a remanufacturing site for value-add processing such as kiln drying, or be delivered direct to a customer.
3. processing ( [REDACTED] )
- Packaged boards are trucked to the [REDACTED] processing plant (third party owned) located at [REDACTED]. Teal-Jones incurs trucking fees (CDN\$ [REDACTED]/truck) and brokerage charges. The lumber is shipped under bond so it doesn't attract export taxes
  - The lumber is heat treated (if being shipped to Australia or other markets) or kiln dried
  - The lumber is trucked across the road to Teal-Jones planning facility also located at [REDACTED]
  - Final packaging – finished boards are packaged into lengths, banded and if required the ends of each board are painted with red wax-paint.
  - Freight to customer – products are trucked to customers if domestic sale or to a container yard (dock) before loading onto a ship for export sale. Lumber being exported to Australia is containerised. Australian products are sent ex [REDACTED] or [REDACTED] [locations].

Teal-Jones explained that it cuts scantling from Douglas Fir for the Australian market as part of the [REDACTED] program as a secondary solution to maximise the value of the log.

Teal-Jones advised that typical by-products from sawmilling are woodchips and sawdust.

### 4.5 Domestic sales of like goods

At verification Teal-Jones provided us with a list of domestic sales made over the investigation period. We examined the domestic sales made during the investigation period and assessed whether any of these may be considered sales of like goods on the basis of their production, functional, physical or commercial likeness to the goods, as well as other relevant considerations such as the grade, dimension/size and species of the products.

A comparison table containing our assessment of like goods is in **confidential attachment GEN 2**.

We formed the opinion that boards of a size under 120cm<sup>2</sup> with a minimum structural grading of '2 and better' or equivalent constituted a like good regardless of whether it had been kiln dried or planed and regardless of species.

Within its exporter questionnaire response, the company claimed that the products it sold domestically were not similar to the timber exported to Australia for several reasons. At the verification visit we clarified these. In summary, Teal-Jones claimed:

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- There are no directly comparable domestic sales – Teal-Jones claimed that there were no significant comparable domestic sales in Canada of F7 or equivalent grade product suitable for the Australian market.
- They do not produce Douglas fir or Hemlock structural timber intended for sale on the domestic market, and that any domestic sales are incidental. Furthermore, no sales of structural grade timber were made domestically during the investigation period.
- A different species of timber is sold on the domestic market compared to Australian exports – all exports to Australia are Douglas fir, while the majority of domestic sales are Hemlock, with a small number of Spruce and Douglas fir products.

We considered all these factors in our consideration of like goods. We also compared the models sold domestically in Canada and the models exported to the Australian market. Our analysis shows that during the investigation period there were no identical models sold both domestically and to Australian customers due to:

- the larger sizes of the domestically sold product (over 120cm<sup>2</sup>); and
- the majority of domestic timber sales are not of a structural grade.

We determined that the structural timber sold domestically by Teal-Jones is not identical to the goods exported to Australia, but that a small number of the products sold domestically have characteristics that closely resemble those of the exported goods.

We found that total domestic sales of similar products represented █% of sales to Australia. We also found that more than █% of domestic sales were of products larger than 120cm<sup>2</sup> and therefore should be excluded. After removing sales of over-sized products, domestic sales of like goods totalled the equivalent of █% of Australian export sales.

#### 4.6 Conclusion

We consider that some of the structural timber sold by Teal-Jones domestically in Canada has characteristics that closely resemble those of the structural timber exported to Australia and are therefore like goods.

5 EXPORT SALES TO AUSTRALIA
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**5.1 General**

In the investigation period, Teal-Jones exported structural timber to the following Australian customers:

Row Labels	Sum of Quantity (Mbf)	Sum of Quantity (m3)
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
Grand Total	[REDACTED]	[REDACTED]

All products exported by Teal-Jones to its Australian customers are:

- described as "Fir GRN F7 BTR HT" i.e. Douglas fir; green (not kiln dried); F7 & better grade stamped; and heat treated in a kiln for phyto-sanitary reasons; and
- in sizes: 2x12" (outside the scope), 2x10, 2x8, 2x6, 2x4 and 3x4.

Teal-Jones manufactures Australian product as part of a [REDACTED] program at the small log mill (**confidential attachment EXP 1**). Logs are cut for the [REDACTED] market and lumber is recovered for the Australian market. The lumber cut for the [REDACTED] market is planed 'surfaced 4 sides' (S4S) and kiln dried. Whereas the lumber for the Australian market is heat treated in a kiln and sized in a planer (rougher-headed) but remains rough.

**5.1.1 Export sales data provided**

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

- product code (specifying species, green, grade and heat treated);
- invoice number;
- invoice date;
- quantity (nominal Mbf); and
- gross invoice value (CIF in \$CDN).

The following information was not provided in the exporter questionnaire response: customer name, level of trade, purchase order number, ocean freight; marine insurance; FOB export price; inland freight; handling, loading and ancillary; and net price.

Additionally, Teal-Jones provided a 'Turnover' spreadsheet (showing sales values and volumes for both the investigation period and the most recently audited 2010 calendar year (Appendix A-6). Sales data for exports to Australia in the Turnover

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Statement did not match the data in the export sales spreadsheet, however the difference was not significant.

5.2 Sales volume and value

Teal-Jones reported in the export sales spreadsheet that it had exported structural timber to Australia in the investigation period in the following volume and value:

Product	Grade	Total quantity (Mbf)	Total quantity (m3)	Total EP (\$CDN) Gross invoice value
Fir GRN F7 BTR HT	F7	██████████	██████████	██████████

Teal-Jones exported only "F7 and Better" grade of Douglas fir to Australia during the investigation period.

5.3 Export sales process

Teal-Jones stated it has no contracts with Australian customers and does not use price lists. Teal-Jones described its export sales process as follows:

- The process begins with an enquiry from an Australian customer typically by email asking for price and product availability;
- When volumes and prices are confirmed contracts are issued from Teal-Jones' system (Teal-Jones advised there is no price difference between Australian customers as all are considered distributors);
- Product for the Australian market is produced as part of the ██████ program as part of the planned production schedule for the small logs mill. Product is packed and loaded onto trucks for transport to ██████ for heat treatment and planning; and
- Product is packaged and trucked to container yard at ██████ or ██████ where it is containerised prior to being loaded onto the ship for export to Australia.

5.4 Date of sale

We advised Teal-Jones 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

Teal-Jones explained that all of its shipments to Australia during the investigation period were:

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- trading terms were CIF; and
- payment terms were cash at sight of documents.

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

### 5.6 Export packaging

All boards are initially packaged using two plastic straps and stickered lath, kiln dried or heat treated if going to the processing facility at [REDACTED].

After processing, finished boards are packaged into lengths, banded and the ends of each board are painted with red wax paint if being exported to Australia. Products being exported to Australia are then containerised at container yards in [REDACTED] or [REDACTED].

### 5.7 Ocean freight and inland freight

Teal-Jones explained that it incurs inland freight costs between:

- [REDACTED] (small saw mill) and [REDACTED] (processing/ planing facilities); and
- [REDACTED] to container yard at [REDACTED] and [REDACTED].

Teal-Jones also explained it incurs container stuffing charges at the container yards.

### 5.8 Quarantine charges

Teal-Jones advised it had an agreement with the Australian Quarantine Inspection Service (AQIS) which allows third party inspections of product being exported to Australia prior to loading to reduce the need for fumigation by AQIS when the goods arrive in Australia.

Teal-Jones advised that the cost of third party inspections is a nominal amount.

### 5.9 Verification of export sales to source documents

Prior to the visit we requested that Teal-Jones provide supporting documents for eight shipments to Australia we selected from the export sales spreadsheet provided by Teal-Jones in its exporter questionnaire response.

Teal-Jones provided source document bundles for each selected shipment, containing commercial invoice, ocean freight invoice, container yard invoice, certificate of inspection, bill of lading and evidence of payment.

We found that four invoices contained products which are outside the scope of this investigation because they have a cross section greater than 120cm<sup>2</sup>. Therefore, due to the relatively small number of total transactions, we requested copies of all export invoices so that we would have the full product description for all products exported to Australia during the investigation period. We were then able to identify



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all product lines on invoices that are outside the scope of this investigation (**confidential attachment EXP 3**).

Teal-Jones provided copies of the sales invoice, ocean freight invoice and container yard invoice for all other shipments made during the investigation period.

We noted that the export sales spreadsheet provided by Teal-Jones was missing one transaction recorded in the Customs and Border Protection import database. Teal-Jones provided an amended export sales spreadsheet during the verification visit which included the missing transaction (invoice no. [REDACTED]).

Document bundles for all exports from Teal-Jones during the investigation period form **confidential attachment EXP 4**.

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 Mbf and m<sup>3</sup>) and sales value (in Canadian dollars) using the commercial invoices.

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

We observed that Teal-Jones had some negative sales/credit notes recorded in its system. Teal-Jones provided a report from its system of these transactions (**confidential attachment EXP 5**). The export transactions affected have not been adjusted in the spreadsheet as the credit notes do not affect the unit price.

### 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. Teal-Jones stated that all Australian export transactions are CIF. We also noted that no amounts were recorded on the export sales spreadsheet for ocean freight and for inland transport.

During the verification visit Teal-Jones provided a report from its accounting system showing ocean freight and container stuffing charges for each shipment (**confidential attachment EXP 6**).

We noted that:

- some ocean freight invoices covered more than one sales invoice. We were able to trace ocean freight amounts shown on sales invoices to the relevant ocean freight invoices;
- the ocean freight company ([REDACTED]) charged Teal-Jones at the rate of US\$ [REDACTED] container (except on invoices [REDACTED] and [REDACTED] which

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were charged at the rate of US\$ [redacted] container) plus a documentary fee of US\$ [redacted]/Bill of Lading;

- the US\$ [redacted] documentary fee was not included in the report provided by Teal-Jones; and
- invoices [redacted] and [redacted] incurred an additional charge of US\$ [redacted] and US\$ [redacted] respectively for "tailgate examinations". This amount was not included in the export sales spreadsheet.

Teal-Jones provided at the verification visit details of inland freight costs for trucking between:

- [redacted] (small saw mill) and [redacted] (processing/ planing facilities); and
- [redacted] to container yard at [redacted] and [redacted] (**confidential attachments EXP 7 and EXP 8**).

Teal-Jones advised that inland freight costs between [redacted] and [redacted] are included in the costs to make and sell data. We noted that that the income statement included a line for "transport to reman".

Teal-Jones estimated inland freight costs between [redacted] and the container yards to be CDN\$ [redacted]/MFBM (based on CDN\$ [redacted]/ truck + [redacted] FBM/ truck). Teal-Jones provided evidence of inland freight costs between [redacted] and the container yards in the form of invoices from trucking companies (confidential attachment EXP 8).

**5.9.3 Marine insurance**

We observed that the export sales spreadsheet did not have an amount recorded for marine insurance.

We noted that an amount for marine insurance is recorded on some of the export sales invoices. The amount is calculated as [redacted]% of [redacted]% of the invoiced value.

Teal-Jones provided evidence of insurance costs for selected sales (which includes an insurance component to cover any AQIS fumigation costs which may be incurred) (confidential attachment EXP 4).

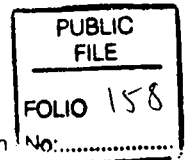
**5.9.4 Credit terms**

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 Teal-Jones for the selected transactions indicated that this was the case.

**5.9.5 Handling and other charges**

We noted that Teal-Jones incurred container stuffing charges of CDN\$ [redacted]/container.

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**5.10 Forward orders**

Teal-Jones did not provide any details of forward orders from its Australian customers.

**5.11 The exporter**

We consider Teal-Jones to be the exporter of the goods shipped from Canada to Australia because Teal-Jones:

- 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 Teal-Jones's Australian customers:

- negotiate directly with Teal-Jones for the purchase of timber;
- are named as the consignee on the bill of lading; and
- arrange customs clearance, quarantine, logistics, and storage of the goods after they have been delivered to the Australian port.

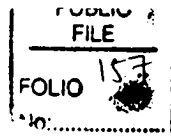
We consider that Teal-Jones's invoiced Australian customers are the beneficial owners of the goods at the time of importation and are therefore the importer of the structural timber exported by Teal-Jones.

**5.13 Arms length**

In relation to all of Teal-Jones' export sales of the goods 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

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- 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 Teal-Jones'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 Teal-Jones, we consider that:

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

Therefore, we are satisfied that export price for direct export sales from Teal-Jones can be established under Section 269TAB(1)(a) of the Act.

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

**6 DOMESTIC SALES****6.1 General**

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

Teal-Jones 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).

The British Columbia (BC) lumber industry refers to BC coastal lumber and BC interior lumber. 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 essentially from SPF Lodge Pole Pine from managed forest licences.

Teal-Jones claimed that it did not sell like goods to the goods exported to Australia on the Canadian domestic market during the investigation period. Therefore Teal-Jones did not provide any information on domestic sales in its exporter questionnaire response.

At the verification visit, Teal-Jones provided information on domestic sales of Douglas fir (**confidential attachment DOM 1**).

Teal-Jones explained that the goods exported to Australia are a unique product i.e. the goods are:

- known as a 'scantling i.e. a 2x4 is finished as [REDACTED] x [REDACTED];
- Grade stamped under third party inspection as a structural product;
- heat treated in a kiln for phyto-sanitary reasons;
- sized in a planer – product remains rough and is rougher headed i.e. not S4S; and
- Product is length specific.

Teal-Jones compared the Australian goods with domestic sales of Douglas fir. Domestic sales were grouped into 4 broad groups that share similar characteristics or end use. We noted that one of these groups called 'North American Housing Components' is a structural product that is grade stamped under NLGA Authority, kiln dried and planed/surfaced on all four sides (S4S).

We explained the definition of the goods and like goods to Teal-Jones, in particular that the definition does not specify particular species (Section 4' The Goods' refers).

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Teal-Jones provided a report of all of its sales of lumber manufactured in the small log mill during the investigation period (**confidential attachment DOM 2**). The report enabled the identification of domestic sales i.e. transactions where the 'sales territory' field is recorded as 'domestic'.

Teal-Jones explained that although a transaction is recorded in the system as a domestic sale, it may in fact be an export sale to a Canadian-based customer, i.e. the final port of delivery is outside of Canada. We discussed with Teal-Jones a way of identifying this type of transaction. As customers are exempt from paying Canadian taxes on goods that are purchased for export, we were able to filter out all of these sales when examining domestic sales.

We then discussed with Teal-Jones 'item descriptions' that might fit within the parameters of like goods (**confidential attachment GEN 2**). We went through each of the item descriptions and identified items that were graded as structural. We then identified items that were graded as structural but were outside the scope of like goods definition i.e. the cross sectional area was 120cm<sup>2</sup> or greater. Finally we compared the volume of like goods sold on the Canadian lumber market with the volume of goods exported to Australia over the investigation period and found that domestic sales of like goods represents ████% of goods exported to Australia (**confidential attachment DOM 3**).

As there is insufficient volume of domestic sales of like goods that may be relevant for the purpose of ascertaining the normal value under sub-section 269TAC(1) we did not devote much time to examining domestic sales transactions. Teal-Jones did however provide supporting documents for 8 transactions selected from the list of domestic sales of like goods for verification.

### 6.2 Sales to related parties

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

### 6.3 Domestic sales process, pricing and terms

#### 6.3.1 General

Teal-Jones advised that since the global financial crisis the domestic market has become a secondary market for its sales of structural timber. The product it sells domestically is regarded as either fall down product or product it is unable to sell on its export markets.

Teal-Jones explained it therefore does not use price lists nor has sales contracts with domestic customers. In setting price, Teal-Jones advised that its primary concern is the recovery of costs.

Teal-Jones explained its sales process as follows:

- Teal-Jones and customer agree price and volume for the selected item;
- Customer confirms the order;

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- Delivery terms are generally delivered but we noted from the selected transactions that some are mill; and
- Teal-Jones issues the invoice when the goods are loaded onto the truck.

### 6.3.2 Payment terms and discounts

Teal-Jones advised that all domestic 'whitewood' sales are [REDACTED] [REDACTED] [payment terms].

Teal-Jones confirmed that the invoice price less early payment discount amount is the final price paid for domestic sales. We noted that the payment terms are quoted on the selected invoices.

Teal-Jones advised that there are no other discounts, rebates, or commissions applicable to the domestic sales.

### 6.4 Verification of domestic sales to source documents

As stated previously we selected 8 transactions from the list of domestic sales of like goods for verification.

Teal-Jones provided copies of the sales invoice, customer confirmation, shipment tag detail and evidence of payment for each selected transaction. We noted that one of the transactions (invoice # [REDACTED]) was an internal sale/transfer to another division of the Teal-Jones Group.

We found that the data contained in the domestic sales report was an aggregate of the line-by-line sales data on each invoice. We were able however to match the aggregate data on the report with the totals in the source documents provided. We noted that the discount amount is not recorded in the domestic sales report.

We noted that the domestic sales report does not identify inland freight costs.

Copies of the source documents for the selected domestic sales for small log mill are at **confidential attachment DOM 4**.

As stated above, we consider there were insufficient domestic sales of like goods in the investigation period for the purpose of ascertaining a normal value under sub-section 269TAC(1).

### 6.5 Arms length

In respect of Teal-Jones'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

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- the buyer, or an associate of the buyer, will, subsequent to the purchase of 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 Teal-Jones's domestic sales of timber products are made in arms length transactions.

**6.6 Ordinary course of trade**

As domestic sales of like goods represented [REDACTED] % of export sales we did not form an ordinary course of trade test.

**6.7 Suitability of profitable sales**

As stated previously, we consider there were insufficient domestic sales of like goods in the investigation period for the purpose of ascertaining a normal value under sub-section 269TAC(1).

**6.8 Sales by other sellers**

Teal-Jones advised that there are other manufacturers of structural timber in Canada that make domestic sales. We noted that Western Forest Products is also participating in the investigation.

**6.9 Domestic sales conclusion**

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



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7 THIRD COUNTRY SALES

Teal-Jones provided during the verification visit a summary of product volumes and values for timber products exported to third countries from the small log mill.

We noted that Teal-Jones exported lumber products from the small log mill to

[redacted] [countries]. We noted that although the product exported to [redacted] is manufactured from the same program as the Australian product it undergoes further processing i.e. kiln dried and planed S4S. We also noted that the sales report, as stated previously, contains aggregate information for each transaction and does not readily identify the grade, dimensions, quantity or price of the products line-by-line.

As we considered that we were in possession of enough verified information from the submission and our visit to calculate normal values using a constructed method, we did not undertake verification of third country export data.

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

In its Exporter Questionnaire Response, Teal-Jones provided costs to make and sell (CTMS) data for structural timber exported to Australia. However, it did not provide CTMS for domestic sales of structural timber. Teal-Jones explained that it did not provide domestic CTMS because it considers that it did not sell like goods on the domestic market.

As discussed in section 4, we explained that timber sold into the domestic market does not have to be identical to the goods to be considered as like goods and that like goods can be any timber that is capable of being used in structural applications. Nonetheless, as found in the section 6 above, there are insufficient volumes of like goods sold in the domestic market to determine normal value under section 269TAC(1). Therefore, we did not pursue Teal-Jones in providing costs of structural timber sold in the domestic market.

Teal-Jones based its CTMS of timber exported to Australia on its small log mill data from its income statement (**confidential attachment CTMS 1**), which breaks the costs down into the following cost centres:

- Log purchases;
- Towing and scaling & brokerage;
- Booming & Lumber Yard;
- Sawmill;
- Residual loading;
- Finishing (heat treating and planning);
- Yard and Shipping (handling and loading for transportation);
- Direct overheads;
- Other;
- Administrative expenses; and
- Extra ordinary items.

As Teal-Jones' financial year is a calendar year, it calculated costs for the investigation period using the 2010 figures, then subtracting the June 2010 year-to-date and adding the June 2011 year-to-date figures.

Teal-Jones then proportioned the total cost for the investigation period to the costs of the goods exported to Australia based on hours worked for the goods (see section 8.3.2 below), except for log purchases (see section 8.3.1 below), towing and scaling & brokerage, and finishing costs (see section 8.3.4 below).

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From the total cost for the goods exported to Australia over the investigation period, Teal-Jones then calculated quarterly costs based on sales volume (**confidential attachment CTMS 2**).

We consider these allocation methods reasonable.

Teal-Jones also recalculated its CTMS into the following cost categories to comply with the Exporter Questionnaire:

- Material costs;
- Direct labour
- Manufacturing overheads
- Other costs; and
- SG&A.

Teal-Jones then deducted by-product revenue and added inland freight costs to obtain CTMS at the free-on-board level.

### 8.2 Verification of costs to audited financial statements

To verify the completeness and relevance of Teal-Jones' CTMS data, we attempted to reconcile its 2010 small log mill income statement (confidential attachment CTMS 1) to its audited financial statement (**confidential attachment CTMS 3**). Teal-Jones provided a letter from its auditors (**confidential attachment CTMS 4**) stating that:

*"In our opinion, the combined financial statements present fairly, in all material respect, the combined financial position of The Teal-Jones Group of Companies as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles."*

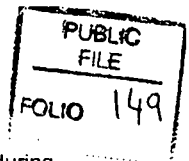
Teal-Jones showed us a combined income statement showing the earnings from each of its business. We were able to match the net income from the small log mill income statement (confidential attachment CTMS 1) of \$ [REDACTED] to the net income for the small log mill on the combined income statement. We were then able to match the total net earnings for the Teal-Jones Group on the combined income statement of \$ [REDACTED] to the audited financial statement for the Teal-Jones Group.

Having reconciled Teal-Jones' small log mill income statement (confidential attachment CTMS 1) used to calculate CTMS to its audited financial statements, we are satisfied in the completeness and relevance of Teal-Jones' CTMS spreadsheet.

### 8.3 Verification of production costs to source documents

To verify the accuracy of Teal-Jones' CTMS data, we selected log purchases, hours worked, byproduct revenue, finishing costs and depreciation expenses for further verification down to source documents.

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### 8.3.1 Log purchases

Teal-Jones calculated the total log cost for the goods exported to Australia during the investigation period by multiplying the total log consumption in m<sup>3</sup> by the log price of \$ [REDACTED] per m<sup>3</sup>.

The log consumption volume was calculated by dividing the total export sales volume in fbm by a log recovery factor (LRF). Teal-Jones explained that the LRF is the volume of timber produced in fbm per m<sup>3</sup> of log. We sought to verify the LRF figure and Teal-Jones provided a spreadsheet of its production data showing timber production and log consumption details per shift (**confidential attachment CTMS 5**). The LRF calculated from this spreadsheet matched the LRF in the income statement. We then selected a shift per quarter over the investigation period and Teal-Jones provided us with shift reports for the selected shifts (**confidential attachment CTMS 6**). We were then able to match the data in the production data spreadsheet (**confidential attachment CTMS 5**) to the shift reports.

We also sought to verify the unit log purchase price. Teal-Jones provided a spreadsheet showing all its Douglas fir log purchases over the investigation period (**confidential attachment CTMS 7**) which showed the weighted average price used. We then selected one log purchase transaction per quarter and Teal-Jones was able to provide invoices for those selected transactions (**confidential attachment CTMS 8**). We were then able to match the data in the log purchase spreadsheet (**confidential attachment CTMS 7**) to the invoices.

We noticed that Teal-Jones calculated log purchases using weighted average log consumption and unit prices over the investigation period, however, the spreadsheets provided by Teal-Jones allowed the ability to calculate actual LRFs, and therefore log consumption volumes, and unit log prices for each quarter. Therefore, the CTMS spreadsheet was updated to reflect actual quarterly log purchases.

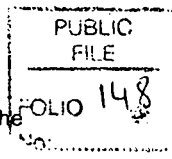
### 8.3.2 Hours worked

We asked Teal-Jones to substantiate the total hours run for all small log mill production of [REDACTED] hours and the hours run for the goods exported to Australia of [REDACTED] hours. As discussed in section 8.1 above, the hours worked is used to proportion certain cost components of the small log mill to the goods.

Teal-Jones referred us to the production data spreadsheet (**confidential attachment CTMS 5**) which shows for each shift during the investigation period, the type of timber being cut, the volume of production and the hours for that shift. We sought to match the total hours and found a variance of less than 1%. Teal-Jones explained that the difference between the production data and the income statement can occur when the accounts are reconciled at month's end.

The total hours run for the goods exported to Australia was calculated by dividing the total Australian sales volume by the production rate of [REDACTED] fbm per hour for the [REDACTED] Australian cut as calculated in the production data spreadsheet (**confidential attachment CTMS 5**).

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We are satisfied with the calculation of hours worked and the proportioning of the costs to the goods exported to Australia.

### 8.3.3 Byproducts revenue

We sought to verify the byproduct revenue allocated to the goods exported to Australia. Teal-Jones' byproducts revenue is comprised of sales of woodchips and saw dust/hog fuel.

Teal-Jones calculated the revenue generated by sales of woodchips in respect of the production of the goods by multiplying the volume in volume units (vu) of woodchips produced for the volume of timber exported to Australia by the value of woodchips at \$ [REDACTED] per vu. It calculated the woodchip volume by multiplying the volume exported to Australia by a factor of [REDACTED]. This factor was calculated by dividing the total woodchip volume produced during the investigation period by the total timber production volume, giving a vu of woodchip produced per fbm of timber produced. Teal-Jones provided woodchip production data from its general ledger (**confidential attachment CTMS 9**) to substantiate the woodchip production volume and a woodchip invoice to substantiate the \$ [REDACTED] per vu for woodchips (**confidential attachment CTMS 10**).

Teal-Jones calculated the revenue generated by sales of sawdust/hog fuel in respect of the production of the goods using a similar method as woodchips. First, it divided the total revenue generated by sawdust/hog fuel by the total timber production to give a value of sawdust/hog fuel per fbm of timber produced. It then multiplied this value by the total fbm of the goods exported to Australia. Teal-Jones provided sawdust/hog fuel sales data from its general ledger (**confidential attachment CTMS 11**) to substantiate its calculations.

We noticed, however, that the total timber production volume used in the byproduct calculations differed from the total reported in the production data spreadsheet with a variance of approximately 5%. Teal-Jones explained that the byproduct calculation is based on production data from its income statement and the difference can be due to adjustments to account for changes in tally size or trim losses. We consider that this explanation is reasonable and calculated that the impact of this variance on its CTMS is less than 0.01% (**confidential attachment CTMS 12**).

We are satisfied with the byproduct revenue allocated to the goods exported to Australia.

### 8.3.4 Finishing costs

Finishing costs comprise of trucking from its small log sawmill to [REDACTED], heat treatment, planing, packaging, anti-stain treatment, and other costs. We selected heat treatment for further verification and Teal-Jones provided us with a spreadsheet showing the cost of the heat treatment, planing, and packaging over the investigation period (**confidential attachment CTMS 13**). From this spreadsheet, Teal-Jones calculated the costs per fbm of timber and applied this to the cost spreadsheet. We then selected a heat treatment transaction and Teal-Jones was able to provide an invoice from [REDACTED] [company] for the selected transaction.

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However, similar to log costs, we noticed that Teal-Jones calculated finishing costs using weighted average costs over the investigation period and the spreadsheet allowed for the ability to calculate actual finishing costs for each quarter. Therefore, the CTMS spreadsheet was updated to reflect actual quarterly finishing costs.

### 8.3.5 Depreciation expenses

We sought to verify the depreciation expenses in its small log mill income statement (confidential attachment CTMS 1) for its small log mill. Teal-Jones was able to show us a spreadsheet listing all the small log mill assets, amortisation and depreciation rates, and the total depreciation expense per month. We were able to match to total 2010 depreciation expense shown on this spreadsheet to the small log mill income statement (confidential attachment CTMS 1).

### 8.4 Verification of selling, general and administration expenses

Teal-Jones based its SG&A expenses from its small log mill income statement (confidential attachment CTMS 1) and allocated it to the goods exported to Australia based on hours worked, the same method as most of its cost allocations (see section 8.1 above). We consider this approach to be reasonable.

### 8.5 Costs to make and sell – conclusion

We are satisfied that Teal-Jones' 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 Teal-Jones.

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 Teal-Jones' 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 prices in terms of section 269TAC(1).

**9.2 Constructed normal value**

Based on the information provided by Teal-Jones, and the verification conducted on site, we are satisfied that the CTMS are suitable for determining a constructed normal value under section 269TAC(2)(c) of the Act.

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

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

After analysing Teal-Jones overall domestic sales performance of structural timber we found that [REDACTED] [profitability of domestic sales] and therefore an amount for profit was not included in the constructed normal value calculations<sup>4</sup>.

**9.3 Adjustments**

As we have ascertained export prices and CTMS of the goods exported to Australia at FOB (ex-container yard), we consider that no further adjustments to the normal value necessary.

**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 Teal-Jones are at **confidential appendix 3**.

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<sup>4</sup> Section 269TAC(13)

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10 DUMPING MARGIN – PRELIMINARY ASSESSMENT

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

The weighted average product margin for structural timber exported to Australia by Teal-Jones in the investigation period was -9.1%. Details of this calculation are at **confidential appendix 4**.



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11 LIST OF APPENDICES AND ATTACHMENTS

<b><u>Confidential appendices</u></b>	
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
<b><u>Confidential attachments</u></b>	
<b><u>General</u></b>	
GEN 1	Exports to Australia
GEN 2	Like goods assessment
<b><u>Export sales</u></b>	
EXP 1	Details of timber production run for [REDACTED]
EXP 2	Export sales spreadsheet
EXP 3	List of products exported to Australia which are the goods
EXP 4	Document bundles for all exports from Teal-Jones during the investigation period
EXP 5	Negative export sale/credit note transactions
EXP 6	Ocean freight and container stuffing charges for Australian shipments
EXP 7	Inland freight costs
EXP 8	Inland freight costs
<b><u>Domestic sales</u></b>	
DOM 1	Domestic sales of Douglas fir timber
DOM 2	Sales of lumber manufactured in the small log mill during the investigation period
DOM 3	Like goods sales volume
DOM 4	Selected domestic sales source documents

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<u>Cost to make and sell</u>	
CTMS 1	2010 small log mill income statement
CTMS 2	Calculation of quarterly costs based on sales volume
CTMS 3	2010 audited financial statement
CTMS 4	letter from auditors
CTMS 5	Production data showing timber production and log consumption details per shift
CTMS 6	Shift reports for selected shifts
CTMS 7	Douglas fir log purchases over the investigation period
CTMS 8	Invoices for selected log purchases
CTMS 9	Woodchip production data from General Ledger
CTMS 10	Woodchip invoice
CTMS 11	Hog fuel/sawdust sales data from General Ledger
CTMS 12	Production data from income statement
CTMS 13	Heat treatment, planing, and packaging costs