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**Australian Government**

**Australian Customs and  
Border Protection Service**

PUBLIC FILE
FOLIO No: 44

**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**

**STORA ENSO LIETUVA UAB, ALYTUS SAWMILL  
LITHUANIA**

**November 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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**2 ABBREVIATIONS**

S	Australian dollars
The Act	Customs Act 1901
The applicants	Building Supplies Group Holding Pty Ltd (BSG), Hyne & Sons Pty Ltd (Hyne) and Gunns Limited (Gunns)
BSG	Building Supplies Group Holding Pty Ltd
CIP	Carriage and insurance paid
CLS	Canadian Lumber Standard
CTMS	Cost To Make & Sell
Customs and Border Protection	Australian Customs and Border Protection Service
EBIT	Earnings before interest and tax
ERP	Enterprise resource planning
EXW	Ex-works or ex-factory
FCA	Free carrier
FOB	Free On Board
H2	Hazard level 2 – specification for preservative treatment to protected interior timber applications against the potential for termite attack
IFRS	International Financial Reporting Standards
LIBOR	London Interbank Offered Rate
m <sup>3</sup>	Cubic metres
MGP	Machine grade pine
NIP	Non-injurious Price
PAD	Preliminary Affirmative Determination
SAP	Accounting software
S4S	Surface four sides
S4SEE	Surface four sides, easy edged or rounded corner
SEF	Statement of Essential Facts
SE Lietuva	Stora Enso Lietuva UAB, Alytus Sawmill, Lithuania
Stora Enso Wood Products	SEWP
SPF	Spruce-pine-fir Spruce ( <i>Picea abies excelsa</i> ), pine ( <i>Pinus sylvestris</i> ) and douglas fir/larch ( <i>Pseudotsuga-larix deciduas</i> )
structural timber	As defined in section 3.1 of this report
Tariff Act	Customs Tariff Act 1995
the goods	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

**3 BACKGROUND****3.1 Introduction**

On 5 August 2011, Building Supplies Group Holding Pty Ltd (BSG), Hyne & Sons Pty Ltd (Hyne) and Gunns Limited (Gunns) lodged an application requesting that the relevant Minister (in this case the Attorney-General<sup>1</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, Stora Enso Lietuva UAB, of Lithuania (hereinafter referred to SE Lietuva) was identified as an exporter of certain structural timber from Lithuania. Customs and Border Protection wrote to SE Lietuva seeking its cooperation with the investigation and forwarded an exporter questionnaire to the company.

SE Lietuva completed and lodged a response to the exporter questionnaire supported by non-confidential and confidential appendices and attachments. A non-confidential version of SE Lietuva's response to the exporter questionnaire was placed on the Public Record.

SE Lietuva's responses to the exporter questionnaire was assessed and found to be sufficient to warrant a verification visit. Customs and Border Protection undertook a verification visit in conjunction with the verification of exporter questionnaire responses lodged by the Stora Enso Estonian exporters. The verification was conducted at the Stora Enso Eesti AS, Näpi Sawmill, Rakvere, Estonia where full access to all records of SE Lietuva was made available.

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

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<sup>1</sup> The Minister for Home Affairs may have a conflict of interest in respect to the wood product industry and therefore this matter will be dealt with by the Attorney-General.

### 3.2 Purpose of visit

The purpose of the visit was to verify information contained in the responses to the exporter questionnaires submitted by SE Lietuva.

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

- who is the exporter and who is the importer;
- export prices and normal values for products manufactured and exported by SE Lietuva; 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 Customs and Border Protection's Final Report and recommendations are due to the Minister.

We informed SE Lietuva 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 SE Lietuva with the draft report to review its completeness 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 SE Lietuva during the verification meetings would be treated as confidential unless we were advised otherwise.

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**3.3 Meeting – dates and attendees**

The verification meetings took place at:

Stora Enso Eesti AS, Näpi Sawmill  
Address: Napi tee 2e, 44305 Rakvere  
Estonia

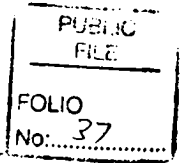
The Alytus mill which produced the goods exported by SE Lietuva is located at:

Naujoji str. 134  
Lithuania  
Phone number: + 370 315 56911

The following were present at various stages of the interview:

Dates	8-11 November 2011 (Napi)
Stora Enso Wood Products	<b>Stora Enso Wood Products GmbH</b> Jari Lehto – Business Controller, Marketing & Sales  <b>Northern European Unit</b> Indrek Saks – Sales Coordinator  <b>Alytus Sawmill</b> Darius Vaiciukynas – Mill Manager, Alytus Sawmill Rosita Karalaitienė – Finance Controller Laurynas Kudakas – Product Manager
Customs and Border Protection	<b>International Trade Remedies Branch</b> John Bracic – Director, Operations 1 Rod Jones – Manager, Operations 1

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### 3.4 Cooperation and preliminary issues

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

We advised SE Lietuva 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 SE Lietuva;
- if the delegate is satisfied that SE Lietuva had not exported the products to Australia in the investigation period at dumped prices, Customs and Border Protection would be required to terminate the investigation so far as it relates to SE Lietuva; and
- if the delegate is satisfied that there has been dumping from Austria, Canada, Czech Republic, Estonia, Germany, Lithuania, Sweden, and the USA., but the injury, if any, to the Australian industry that has been caused by that dumping is negligible, then Customs and Border Protection would be required to terminate the investigation.



**4 COMPANY INFORMATION****4.1 General**

Stora Enso Wood Products (SEWP) is a global paper, packaging and wood products company headquartered in Finland, producing six million cubic metres of sawn and processed wood products annually. The other products produced by the company are newsprint and book paper, magazine paper, fine paper, consumer board and industrial packaging products such as pallets.

In the wood products business division, SE Lietuva comprises two business units, the Alytus sawmill which produces and sells the goods and wood supply, which sources the timber logs for the sawmill. SE Lietuva wholly owns Puumerkki UAB (Puumerkki), a distribution company which sells the majority of the Alytus products on the domestic market in Lithuania. SE Lietuva is a separate legal entity wholly-owned by Stora Enso Eesti AS (SE Eesti AS) in Estonia, which is a wholly-owned subsidiary of Stora Enso Oyj in Finland. SE Eesti is also the parent company for Stora Enso Estonia and Stora Enso Latvia. The organisational structure and legal structure of SE Lietuva were provided as non-confidential attachments to SE Lietuva's returned exporter questionnaire.

In the investigation period, 1 July 2010 to 30 June 2011, Alytus sales of all timber products were approximately XXXXX m<sup>3</sup>. The main products produced and sold included sawn timber used for XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX [sawn timber uses]. The majority of the timber produced and sold was XXXXXXXXXXXXX [timber specifications], also called XXXXXXXXX, was sold for use in XXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX [applications]. None of the products were XXXXXX.

At the meeting a power point presentation that included the history of the Alytus sawmill, the production process, sales and production and market background was provided. A copy of the Alytus presentation is at **confidential attachment GEN 1**. A power point presentation of the SEWP group summarising markets, mills, group structure and production and sales was also provided. A copy of the SEWP presentation is at **confidential attachment GEN 2**.

*Accounting structure*

SE Lietuva advised that its financial reports are in accordance with Generally Accepted Accounting Principles (GAAP) of Lithuania its quarterly results are reported in Hyperion Financial Management (HFM). SE Lietuva advised that all Stora Enso units report their quarterly financial results in HFM. SE Lietuva uses SAP R/3 enterprise resource planning (ERP) as its accounting information system.

SE Lietuva reports on a calendar financial year from 1 January to 31 December. Its records, books and financial statements are maintained in the local currency of Litas, Lithuania has not yet changed to the Euro currency. The financial results are

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reported in HFM in euros. The rate of exchange of the Lt to the Euro has been at 3.4528 Lt to one Euro since February 2002.

SE Lietuva provided a copy of its profit and cost centre structure, there are XXX profit centres, covering XX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX [timber products]. There are XX costs centres including XXXXXXXXXXXXXXXXXXXXXXX [cost centres].

SE Lietuva financial reports are audited by the accounting firm UAB Deloitte Lietuva. An English translation of Deloitte's independent opinion of the SE Lietuva financial position and financial performance is provided **confidential attachment GEN 3**. Deloitte's independent opinion of the SE Lietuva states:

*In our opinion the financial statement present fairly in all material respects, the financial position of the Company as of 31 December 2010 and of its financial performance and its cash flows for the year then ended in accordance with Lithuanian Business Accounting Standards.*

#### 4.2 Related parties

*Stora Enso Australia Pty Ltd*

XXXXXX [proportion] SE Lietuva's export sales to Australia were to a related company, Stora Enso Australia Pty Ltd (Stora Enso Australia). SE Lietuva submitted in its responses to the exporter questionnaires that the prices of these sales were determined on an arms-length basis. Further details of the arms length nature of these transactions are discussed in the Section 6.13 of this report.

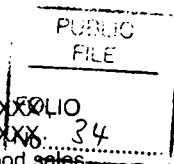
SE Lietuva submitted that, during the investigation period, it had no legal or other relationship with any domestic or Australian customer except Stora Enso Australia, a wholly owned subsidiary of Stora Enso Wood Products GmbH and through it, Stora Enso Wood Products Oy Ltd in Finland.

#### *Log supply*

In its responses to the exporter questionnaires, SE Lietuva submitted that all logs were purchased from Stora Enso Wood Supply (SE Wood Supply) using arms length principle. SE Wood Supply is a separate business unit within SE Lietuva that sources, purchases and on sells timber to the Lithuanian mills. There is no actual sale involved from SE Wood Supply to SE Lietuva, rather it is an inter company transfer.

SE Lietuva advised that the price from SE Wood Supply is a XXXXXX pricing method using cost of the logs plus SE Wood Supply expenses. SE Wood Supply purchases wood from XXXXXXXXXXXXXXX at XXXXXX price. Sawn material is purchased XXXXXXXXXXXXXXX [sources]. Inter-company purchases from SE Wood Supply use arms length principle, the used XXXXXX pricing method is comparable to XXXXXXXXXXX, or market, price. External purchases of sawn material are done at comparison with market prices.

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SE Lietuva advised that logs for the Alytus sawmill were predominantly XXXX~~XXXX~~ and then XXXXXXXX [species]. The majority of logs (XX%) are sourced XXXX~~XXXX~~. XXXXXXXXXXXX [location] from XXXXXXXXXXXXXXXXXXXX [suppliers]. Wood sales from state owned plantations are organized through XXXXXXXXXXXX; there are three types of contracts:

- long term, XXX years validity with price correction XXXXX year;
- half year, firm price during contract validity; and
- short term, spot deals for certain volume.

Sales and pricing is determined by tenders with the key indicator being the highest price offered.

The private companies are mainly XXXXXX with a XXXXXXXX ownership and an average forest holding XXXX. Prices are established in XXXXXXXXXXXX and traditionally there are XXXXXXXX obligations.

Logs are also sourced from unrelated companies in XXXXXXXXXXXX and the XXXXXXXXXXXX, XXXXXXXXXXXX of logs are sourced from XXXXXX. XXXXXX is viewed as the most stable source, XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX [source of logs] organised through XXXXXXXXXXXX. Procurement and logistics are organised by the local SE Wood Supply company in XXXXXXXX with pricing based on XXXXXXXXXXXXXXXXXXXX [basis of log costs].

ES Lietuva provided spreadsheets of log its purchases by month for 2010 and 2011; details included in the spreadsheet are country of origin quantity, diameter and price.

A copy of the log purchase summaries is at **confidential attachment GEN 4**.

**5 GOODS UNDER CONSIDERATION AND LIKE GOODS**

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**5.1 The goods under consideration**

The goods the subject of the application are described as follows.

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

- *has a thickness exceeding 6mm; and*
- *has a cross-sectional area of less than 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.*

**5.2 Like goods***Log species*

SE Lietuva noted it sources logs in two species, - XXXXXXXXXXXX and XXXXXXXX.

*Production process*

A detailed outline of SE Lietuva's timber production process was provided in the exporter questionnaire response in the Factory Product Control Handbook. A summarised version was also provided in the power point presentation of Alytus. The general timber production process that SE Lietuva follows is described below:

1. Log sorting – XX ;
2. Debarking – XX  
XX  
XX [debarking process].
3. Sawing – XX  
XX  
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX [sawing process];
4. Green sorting – XX  
XX  
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX [green sorting process];
5. Drying – XXXXXXXXXXXXXXXXXXXXXXX [drying process]
6. Planing – XXXXXXXXXXXXXXXXXXXXXXX [planing process].

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In its exporter questionnaire, SE Lietuva claimed that the majority of the products it sold domestically were not identical or like to the timber exported to Australia as the majority of the timber it sold domestically was of a lower quality mainly due to the wood defects such as knots, cracks and colouring of the wood. SE Lietuva claimed two models it sold domestically were identical to the exported goods.

We noted that the two models that claimed as being identical to the exported goods had been compared to exports identified as B- grade products in the export summary of products exported to Australia.

At the visit we asked SE Lietuva for further information on the B - grade products exported to Australia. SE Lietuva advised that the B - grade products were not products that met the Australian standards for use in structural applications. We advised SE Lietuva that the B - grade products exported to Australia were not part of the goods under consideration and would be excluded from export price calculations.

We discussed the issue of like goods further with SE Lietuva and explained that like goods did not necessarily have to be identical to be considered like. We agreed that B - grade products were not like to the goods exported to Australia however if SE Lietuva sold structural products of a similar standard but of differing dimensions on the domestic market then these could be considered like with an adjustment done for differences where required.

SE Lietuva claimed that the structural timber it sold on the domestic market in Lithuania that met European standards was not like to the exported goods. SE Lietuva said that there were different standards for the timber exported to Australia that met the MGP and F standards than that sold on the domestic market in Lithuania that met the European standards. SE Lietuva further claimed that the standards for the European grades were not as strict as for the MGP grades, that housing construction in Lithuania was different to that in Australia and that structural timber that met the Australian standards would be considered over specified for the Lithuanian market.

SE Lietuva provided a table comparing the Australian and European standards that is reproduced below.

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Australian  
standards  
machine  
graded timber  
strength  
classes

## European standard strength classes

EN 1912	C14	C16	C18	C22	C24	C27	C30	C35	C40	MGP10	MGP12
Bending strength N/mm <sup>2</sup>	14	16	18	22	24	27	30	35	40	17	28
Tensile strength N/mm <sup>2</sup>	8	10	11	13	14	16	18	21	24	7.7	12
Compressive strength N/mm <sup>2</sup>	16	17	18	20	21	22	23	24	26	18	24
Mean E modulus KN/mm <sup>2</sup>	7	8	9	10	11	12	12	13	14	10	12.7
Density Kg/m <sup>3</sup>	290	310	320	340	350	370	380	400	420		

SE Lietuva said that whilst the grades shared some similar characteristic a direct comparison could not be made between the grades due to the differences on the specifications.

SE Lietuva further said that smaller logs were used for the Australian timber that tended to be of smaller dimensions, the use of smaller logs meant less waste. In comparison larger logs were used for the European timber that was of larger dimensions. The use of larger logs for the Australian timber would be inefficient as this would mean more waste.

### *Like goods analysis*

In terms of physical and production likeness, the goods sold domestically by SE Lietuva have some physical characteristics that closely resemble the exported goods. They are sawn timber products of coniferous wood with similar appearance, both red wood and white wood are sold domestically and exported to Australia.

The structural timber products sold domestically by SE Lietuva have a degree of functional likeness to the goods exported to Australia. However, the commercial likeness is less evident as it is difficult to determine what type of grade of timber that met the Australian specifications could be substituted for a similar grade of European timber.

There is a range of specifications between the different grades C14 to C40 that increase for each increase in grade. Clearly these specifications have been set for the different grades and purposes for those grades. There is no match up of specifications between the grades of European and Australian products that would enable us to say with confidence that they were like products.

The MGP10 grade appears to fall within the specifications of a C16 – C18 grade but has a lower tensile strength, similarly the MGP12 grade appears to fall within the specifications of a C27 – C30 grade but also has a lower tensile strength. We do not consider that matching grades that fall within a range is appropriate.

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We consider that whilst not identical to the goods exported to Australia, the grade product sold on the domestic market to the European structural standard, have characteristics closely resembling and are therefore like goods. They possess the following common characteristics to be like goods to the goods exported:

Physical – manufactured from the same logs or purchased sawn timber being either spruce or pine, dried and planed to identical or similar various dimensions;

Production likeness – the manufacturing process is identical for the domestic and exported goods and are produced on the same sawing, kilning and planning lines, and

Functional likeness – used in structural applications typically in the construction of house framing or roof trusses.

Having regard to all of these factors, we consider that the structural timber sold domestically by SE Lietuva is not identical to the goods exported to Australia, but the products sold domestically have characteristics that closely resemble those of the exported goods. Ensuring appropriate product comparisons, or product group comparisons, between export and domestic sales is important if domestic sales are to be used as a basis for normal value.

The volume of structural timber sold on the domestic market that met the European standards in the above table was XXXXXXX m3, this represents XXX of the volume of structural timber exported to Australia (XXXXXXX m3) that met the Australian standards.

### 5.3 Conclusion

We consider that the structural timber sold by SE Lietuva domestically in Lithuania has characteristics that closely resemble those of the structural timber exported to Australia and are therefore like goods in terms of subsection 269T(1) of the Act.



**6 EXPORT SALES TO AUSTRALIA**

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**6.1 General**

In the investigation period, SE Lietuva exported structural timber to only one customer in Australia, its Australian national distributor, Stora Enso Australia.

**6.1.1 Export sales data provided**

In its responses to the exporter questionnaire, SE Lietuva provided an export sales spreadsheet listing each export sale within the investigation period. The spreadsheet included line-by-line information relating to:

- customer
- level of trade
- model
- product code (specifying XXXXXXX [species], grade, profile, dimensions)
- invoice date
- date of sale
- order number
- shipping terms
- payment terms
- quantity m<sup>3</sup>)
- gross invoice value
- net invoice value
- exchange rates
- ocean freight
- FOB export price
- inland freight.

SE Lietuva also provided a 'Turnover' spreadsheet showing sales values and volumes for both the investigation period and the most recently audited 2010 calendar year. The turnover spreadsheet reconciled to the export sales spreadsheet listing for the investigation period.

During the verification we noted an error on one shipment in regards to the amount for inland transport that appeared to be 100 times the amount for other shipments. We sought documents to clarify this amount which showed the amount was an error; we entered the correct amount from the documents provided, these documents are at **confidential attachment Exp-1**

## 6.2 Sales volume and value

We calculated from SE Lietuva's revised export sales spreadsheet the following volumes and values for the goods exported to Australia during the investigation period. Note that exports of B – grade goods have been excluded:

[Table redacted due to confidential information]

Calculations have been done at an ex-factory level.

The majority of structural timber exported by SE Lietuva to Australia was the XXXX grade by both volume and value.

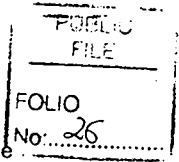
## 6.3 Export sales process

SE Lietuva described its export sales process as follows:

1. An order book (in excel format) comes from Stora Enso Australia each month for the next months requested orders. The order book is sent to the four Stora Enso XXXX mills, one in XXXXX, XXX in XXXXXX and the Alytus mill.
2. The sales price is set in the excel spreadsheet in XXXXXXXX [currency].
3. The mills will determine which orders they can fill dependant on the price, volume and product specifications. SE Lietuva advised that if it mill cannot make a profit on the price specified for a product by Stora Enso Australia it will not place a bid for that order.
4. Once the bid is accepted and finalised, the sawmill order is input to the production schedule for the mill. A confirmation of sales contract is sent to Stora Enso Australia confirming products, volumes and pricing.
5. The goods are sent during the period as full container loads are produced and filled. The goods are shipped from the port of XXXXXXXXXXXXX.
6. Terms of sale are CIP, carriage and insurance paid. SE Lietuva orders the containers required and pays for inland transport to XXXXXX, terminal and port charges at XXXXXX, ocean freight to Australia and terminal and port charges in Australia. SE Lietuva advised that it does not pay for customs duty and other charges, such as quarantine in Australia.
7. The invoice for the goods is issued and dated when the goods XXXXX the Alytus mill. Amounts are in XXX with terms of XXXXX from date of invoice.
8. Stora Enso Australia pays by XXXXXXXX. The rate of exchange (rox) used by SE Lietuva to convert the XXXXXXXXXXXX currency (XXXX) is the rate applying at the XXXXXXXXXXXX. Differences in rox from the rate applied at XXXXXXXXXXXX to the rate applying when payment is received are applied to forex gains and losses in the accounts.

XX  
 XX  
 XX  
 XX  
 XX [pricing policy to Australia].

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### 6.4 Date of sale

We advised SE Lietuva 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. We consider that the invoice date for SE Lietuva which reflects when the goods leave the XXXXXXX is the appropriate date for the date of sale. We noted from the documents provided that the bill of lading was dated around XXXXXX after the date of invoice.

### 6.5 Pricing and terms

SE Lietuva advised that all of its products that were sold to Australia were to its national distributor, Stora Enso Australia on CIP terms. SE Lietuva also advised that its terms of payment were XXXXX net from invoice value; however this could be up XXXXXXX for the payment to be processed.

SE Lietuva explained that the products are XXXXXXX and as such prices do not conform to any standard price lists but are assessed against the prices asked for each order that will come in for that month

SE Lietuva advised that there were no rebates, discounts, or other reimbursements, nor any commissions, in relation to its sales of structural timber to Stora Enso Australia. SE Lietuva advised that the invoiced priced was the final price payable.

We noted that there were negative amounts for quantities and value relating to one invoice on the sales spreadsheet. SE Lietuva advised that this was due to incorrect invoicing of a prior invoice, the amounts had been reversed via the credit invoice and a new invoice issued.

SE Lietuva provided documents to support the credit invoice; these documents consisted of the credit invoice, the original invoice being credited, the replacement invoice and the invoice for ocean freight and other charges. The credit invoice and original invoice details matched, we note that the replacement invoice had the same bill of lading number as on the original invoice and on the invoice from the shipping company. The documents provided supported the explanation by SE Lietuva for the credit amount; these documents are at **confidential attachment Exp-2**.

### 6.6 Export packaging

SE Lietuva advised that packaging costs are considered as costs of producing and are calculated as an average costs for all products, both domestic and export.

### 6.7 Ocean freight, inland transport and port charges

In its detailed export sales spreadsheet submitted in the responses to the exporter questionnaires, SE Lietuva provided line-by-line data for the cost of ocean freight and for the cost of inland transport from mill to port of loading.

SE Lietuva provided a copy of a letter from the shipping company it used, XXXXXXXXXXXXXXXXXXXXXXXXXX that detailed what charges were included in the invoiced amount and the terms of the agreement.

The letter from XXX notes the following charges are included:

- Sea freight and additional charges, such as BUC ( bunker adjustments);
- Origin and destination terminal handling charges;
- Local charges at port of loading and port of destination;
- Gate in free on truck; and
- Pre-carriage from Alytus to port.

The letter from XXX also notes that the rates are reviewed and agreed on a quarterly basis, a copy of the letter is at **confidential attachment Exp-3**.

All charges are on a single invoice, invoices are issued for each shipment that may comprise one or more containers. The goods are typically shipped in XXXXX-high XXXX containers with a capacity of around XXXX.

## 6.8 Insurance

SE Lietuva provided a copy of its marine insurance premium with its response to the exporter questionnaire.

## 6.9 Verification of export sales to source documents

SE Lietuva provided supporting documents for two shipments to Australia in its response to the exporter questionnaire. Prior to the visit we asked for supporting documents for a further three shipments.

SE Lietuva provided source document bundles for each of these shipments, these documents included:

- Confirmation of Sales contract;
- Export declaration;
- commercial invoice;
- packing specification, detailing type, lengths and number of timbers;
- inland transport docket in Lithuania;
- ocean bill of lading;
- treatment certificate for the packaging;
- invoice from XXX for the freight charges; and
- proof of payment from Stora Enso Australia.

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### 6.9.1 Sales volume and value

The sales spreadsheet had a rate of exchange for each sale net invoice value in XX XXXXXXXXXXXXXXXXXXXXX [exchange rate information]. We used the invoice date as the date for the Rox and noted minor variations ranging from -0.5% to 0.2% which we do not consider material.

The invoice for ocean freight and associated charges is in XXXXXX [currency] whilst the amounts in the sales spreadsheet are in XXXXXX [currency]. We compared the invoiced amounts to the amounts on the spreadsheet using the rox on the spreadsheet and noted minor variations of -1% to 0.7% which we did not consider material.

We noted that for the selected transactions the actual payment dates recorded on copies of their bank statements, exceeded XXXXXX from the invoice date, being approximately XXXXXX.

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- is the manufacturer of the goods and manufactured the goods to the specification order to Stora Enso Australia;
- owned the goods at the time of export;
- is listed as the supplier on the bill of lading;
- invoices Stora Enso Australia 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 goods for export to Australia and was aware of the identity of the purchaser of the goods.

### 6.12 The importer

We noted that SE Lietuva's Australian customer, Stora Enso Australia:

- negotiates directly with SE Lietuva for the purchase of timber;
- are named as the consignee on the waybill; and
- arranges customs clearance, quarantine, logistics, and storage of the goods after they have been delivered to the Australian port.

We consider that SE Lietuva's invoiced Australian customer, Stora Enso Australia, is the beneficial owner of product at the time of importation and is therefore the importer of the structural timber exported by SE Lietuva.

### 6.13 Arms length

In relation to all of SE Lietuva's export sales of structural timber to Stora Enso Australia 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.

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

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**6.14 Export price – preliminary assessment**

In the case of export sales to Australia by SE Lietuva, 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 SE Lietuva can be established under Section 269TAB(1)(a) of the Act.

Export prices have been calculated at an ex-factory, Alytus mill. Export price calculations are included at **Confidential Appendix 1**.



**7 DOMESTIC SALES****7.1 General**

An overview of Alytus sales in the domestic market was provided in the Alytus presentation at **confidential attachment Gen-1**.

Sawn and finished products by segments as shown in the presentation are:

- planing mills accounting for approximately XXX of sales, SE Lietuva sold XXXX XXXXXXXX to XXXXXX mills;
- packaging, XX%;
- garden house, XX%, used mainly rough sawn timber as preferred to plane themselves to save on costs;
- construction, XX%, used mainly rough sawn even unseasoned for roof trusses;
- furniture, X%;
- glued and laminated products, X%;
- flooring manufacturers, X%;
- pre-fabricated housing, X%, used the XXXXXX material;
- windows and doors, X%, used special profile cut finger jointed products;
- log house manufacturers, X%; and
- other uses XX%.

SE Lietuva said that there was no real market for XXXXXXXXXXXX material in Lithuania. The market for the XXXXXXXXXXXX material is mainly comprised of XXXXXXXXXXXXXXXXXXXX who use the XXXXXXXX material. There are about XX XXXXXXX and demand for material is XXXXX as production of houses is from XXXXXXX per month. The XXXXXXXXXXXXXXXXXXXX is totally orientated to XXXXXXXXXXX, mainly XXXXXXX.

SE Lietuva said that it had several competitors in the market; there were about three to four local producers of similar size. There was free competition in the market with price competition from local companies, imported product, planing mills and visually graded product.

SE Lietuva advised that prices were set by the prices in the market with production set to market demand; prices were also dependant on demand and production. SE Lietuva said by way of example that the XXX product was the most common product as it was suitable for most applications, however the XXX was also produced as a

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side product of the XXX. This led to a build up of stock of XXX that would be sold at a lower price to clear unwanted stock.

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SE Lietuva further advised that there were sales through the year as most of the pre-fabricated building was in done indoors and that the material used was mainly of XXXX width with a thickness of XXXXXXXX mm.

SE Lietuva provided a summary of sales of structural timber sold in Lithuania in 2010 from its accounting system and a detailed line by line listing of sales for the investigation period. The summary of sales for 2010 is at **confidential attachment DOM-1**, the listing of sales for the investigation period is available as an electronic file only. A pivot table summary of the sales listing for the investigation period is at **confidential attachment DOM-2**.

The summaries show that approximately XXXX m3 of structural timber was sold in 2010 at an average ex-factory price of XXXX Euro m2 and approximately XXXX m3 was sold in the investigation period at an average ex-factory price of approximately XXXXXX m2.

The XXXX, XXXX material in the XX mm XXXXXX range accounted for XXXXX of sales by volume and value.

Sales volume for structural timber in Lithuania represented just over XX of domestic sales (which included all timber).

### 7.2 Levels of trade and sales to related parties

SE Lietuva noted in its exporter questionnaire that it used two distribution channels, industrial sales where sales were direct from the mill to the customer and XXXXXXXX sales where sales were via its XXXXXXXXXXXXXXXXXXXXXXXXXXXX.

SE Lietuva advised at the visit that approximately XXX of its sales were to XXXXXXXX and that prices to XXXXXXXX were set at XXXXX prices, bearing in mind that the Alytus mill also had to make a profit on the sale. SE Lietuva said that XXXXXXXX buy from the Alytus mill and then sell into the market. XXXXXXXX will also buy from other mills in Lithuania to sell into the market and the price from the Alytus was not competitive then XXXXXXXX would source from the other mills. Approximately XX% of XXXXXXXX sales were from the Alytus mill with the balance from other sources.

We compared prices in the domestic sales listing that SE Lietuva provided in its exporter response, though the listing is for B grade and saw fall products that are not the goods we considered an analysis of those prices would be relevant for any differences in pricing between customers.

The sales listing shows that SE Lietuva sells to XXXXX groups of customers, end users, producers and its national distributor XXXXXXXX. We compared prices between the three customer groups and noted that the average price and prices generally for individual products to Puumerkki were XXXXXX than prices to end users and producers. Sales to XXXXXXXX accounted for approximately XXXXXX

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of the sales by volume and value. The analysis of domestic prices is at **confidential attachment DOM-3**.

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The sales listing for structural products at **confidential attachment DOM-2** shows that SE Lietuva sold to XXXXXXXXXX and XXX other customer, sales to XXXXXXXXX accounted for approximately XXX of sales by volume and value.

There were not sales of the same product, ie same dimensions and grade, that could be compared however the average price for XXXXXXXXXX was slightly higher than the average price for the other customer.

### 7.3 Domestic sales process, pricing and terms

#### 7.3.1 General

##### *Direct or industrial sales*

SE Lietuva noted in its response that the sales process for direct sales started with the price agreement, volume and quality agreement with customers. Prices are set according to the mill cost calculations and the trends on the market and according to interaction of these two factors the price to the customer is set. Orders are received generally according to the agreed volume for the quarter or for the month and this volume is delivered according to the contract delivery date or according to the calls received. Some of the sales are stock note based prompt sales, that is sales are from stock rather than a planned order, delivery is made after receiving calls or according to the contract delivery date and the invoice is issued with the sale.

##### *Terminal or sales to XXXXXXXXX*

SE Lietuva advised that prices are set according to price lists in the system, based on the market. Orders are received on daily basis.

#### 7.3.2 Delivery terms

SE Lietuva noted that whether the price included the delivery cost depended on the delivery terms with the customer.

Analysis of the sales spreadsheets shows that for XXXXXXXX sales approximately XXX were delivered whilst the remainder were XXX or XXXXX [Incoterms], for the other sales approximately XXX were XXXXXXX.

#### 7.3.3 Payment terms and discounts

The domestic sales spreadsheet provided by SE Lietuva in the response to the exporter questionnaire identified payment terms of pre-payment or payment in advance, XX days and XX days from date of invoice.

The spreadsheet for sales of structural timber showed payment terms of XXXXXXX XXXXXXXXXX from date of invoice.

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SE Lietuva advised that there are XXXXXXXX and XXXXXXXXXXXX applicable to customers who meet certain targets, these amounts are not shown on the invoice but are included in the sales spreadsheets as separate items.

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### 7.4 Verification of domestic sales to audited financial statements

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

SE Lietuva demonstrated how the sales volume and value of its domestic sales of timber of similar dimension to the Australian exports, as shown in the spreadsheets provided in its response to the exporter questionnaire, could be linked to the profit and loss statements of the audited financial statements for 2010.

SE Lietuva explained that the profit and loss statement of the audited accounts is set down in accordance with the generally accepted accounting principles of Lithuania.

SE Lietuva also provided detailed profit and loss reports for 2010 from its Hyperion Financial Management (HFM) system and from its SAP system.

SE Lietuva provided a total sales spreadsheet that provided volume and value details for each country.

### 7.5 Verification of domestic sales to source documents

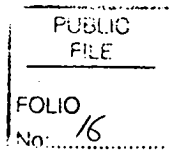
Having established the completeness and relevance of the domestic sales data, we then sought to trace that data down to source documents to ensure the accuracy of the data.

Prior to the visit we sent SE Lietuva a list of six selected domestic sales that we had chosen for closer examination, and we asked for copies of source documents to support the transaction details. In relation to each of the selected transactions, SE Lietuva provided copies of the invoice and packing list.

We found that all the data contained in the domestic sales spreadsheet agreed with the source documents provided. Copies of the source documents for the selected domestic sales are at **confidential attachment DOM 4**.

We also asked SE Lietuva to provide documentation for two selected transactions for the structural domestic timber sales, these documents are at **confidential attachment DOM 5**.

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



## 7.6 Arms length

In respect of SE Lietuva'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 SE Lietuva's domestic sales of timber products are made in arms length transactions.

## 7.7 Ordinary course of trade

Although domestic sales may not be used as the basis for normal values, we still examined SE Lietuva'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 quarterly domestic CTMS for the investigation period. As we were testing the profitability of all domestic sales, we used the average quarterly CTMS that was provided by SE Lietuva in the response to the exporter questionnaire.

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, where the losses were not recoverable, represented approximately XXX of the domestic sales.

We consider that the sales at a loss, where the losses were not recoverable, represent XXXXXXXX and are therefore those sales are considered not to be in the ordinary course of trade.

## 7.8 Suitability of profitable sales

In relation to the sales of the structural timber, we considered whether there were sales of structural timber sold by SE Lietuva on the domestic market at prices paid in the ordinary course of trade.

Sales of structural timber with that met the structural specifications for Europe during the investigation period that recovered the costs represented XXXX cubic metres; the volume of sales in the ordinary course of trade (XXXX-cubic metres) represents approximately XXX of the volume of structural timber exported to Australia by SE Lietuva during the investigation period. A summary of these sales in ordinary course

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of trade, and the detailed ordinary course of trade calculations are provided in **confidential appendix 2**.

We consider this to be a suitable volume of sales<sup>1</sup> when compared to the volume exported to Australia.

However, as noted in the section on like goods above whilst we consider the goods are like they are not identical. There are no identical goods sold on the domestic market that have the same grading specifications or that have the same dimensions as the goods exported to Australia.

To enable a fair comparison of domestic sales with export sales adjustments for specifications and size would be required to the domestic products sold. We discussed this issue with SE Lietuva and agreed that there was no method or information available to fairly adjust for the different specifications and grades sold on the domestic market and those exported to Australia.

Therefore we consider that the normal value of goods exported to Australia cannot be ascertained using domestic sales<sup>2</sup> by reason of the lack of information to enable adjustments to be made for differences in respect of goods that are not identical goods<sup>3</sup>.

### 7.9 Sales by other sellers

SE Lietuva advised that there are other manufacturers of structural timber in Lithuania that make domestic sales. Apart from the SE Lietuva mill, no other Lithuanian mills are participating in the investigation.

### 7.10 Domestic sales conclusion

Having regard to there being no relevant domestic sales, we do not consider the structural timber products sold domestically by SE Lietuva are an appropriate basis for normal values.

We propose to construct normal values.

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<sup>1</sup> Section 269TAC(14) of the Act

<sup>2</sup> Section 269TAC(1) of the Act

<sup>3</sup> Section 269TAC(8) of the Act

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8 THIRD COUNTRY SALES

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In its exporter questionnaire response for both mills, SE Lietuva provided a summary of products volumes and values for timber products exported to XXXXXX countries.

As 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.

**9 COSTS TO MAKE & SELL**

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No:

**9.1 General**

In its exporter questionnaire responses, SE Lietuva provided cost to make and sell calculations, in total and per cubic metre, separately for domestic and export. The data was broadly categorised and presented as:

- material costs;
- direct labour;
- manufacturing overheads;
- other manufacturing costs;
- administration costs; and
- delivery costs.

Prior to the visit, we noted that the approach used by the company to identify its production costs was to calculate the average cost using all production costs divided by the total volume of product sold. We advised the company prior to our departure that this method may not be the most reasonable approach to identifying the true costs of the exported and domestic goods.

We emphasised our requirement to reconcile the data to audited financial statements and management reports, and also down to source documents.

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

**9.2 Verification of costs to audited financial statements**

We chose to focus on the 4th quarter of 2010 in order to establish the link to audited financial statements.

SE Lietuva provided an excel spreadsheet (CTMS – Alytus.xls) that details calculations for each quarter of the investigation period for machine stressed rated products, the goods exported to Australia.

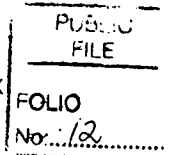
The CTMS has been calculated by calculating a raw material costs and adding costs from cost centres for each process of producing the timber.

The costs centres, processes and examples of charges in each are:

- Raw material handling – XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX  
XXXXXXXXXXXXXXXXXXXX [process and costs included];
- Sawing, small and sawing large – XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX  
XXXXXXXXXXXXXXXXXXXX [process and costs included];



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- Power plant boiler – XX  
XXXXXXXXXXXXXXXXXXXX [process and costs included];
- Kilning – XXXXXXXXXX [process and costs included];
- Planing – XX  
XXXXXXXXXXXXXXXXXXXX [process and costs included]
- Opticutting – XX  
XXXXXXXXXXXXXXXXXXXX [process and costs included]
- Finger jointing – XXXXXXXXXX [process and costs included];
- Storage material out – XXXXXXXXXX [process and costs included];
- Other common production costs – costs include XXXXXXXXXX [costs included];
- Maintenance cost centre; and
- Administration – XXXXXXXXXXXXXXXXXXXXXXXX [costs included].

Costs are shown in XXXX; volumes in m3 for each process (sorting, sawing kilning etc) are also shown with a XXXXX per m3 calculated.

The CTMS spreadsheet and quarterly costs by cost centre are at **confidential attachment CTMS-1**.

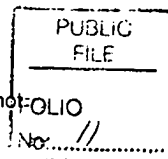
SE Lietuva provided a copy from SAP for the December 2010 quarter for each of the cost centres above. Each cost centre details the cost element and amount in Litas. We added a column to the provided sheets to convert the Litas to euros for comparison with the income statement. The cost centre sheets from SAP are at **confidential attachment CTMS-2**.

We compared the amounts in the individual cost centre sheets from SAP to the amounts in the cost centres in CTMS Alytus spreadsheets. After taking into account items relating to wood costs and a management fees there was a variance of - .0004% which we did not consider material.

SE Lietuva provided a copy from SAP of the revenue and costs elements for the December 2010 quarter. We then totalled the costs on the CTMS – Alytus spreadsheet and compared these costs to the total on the SAP revenue and costs. The costs in the SAP revenue and costs comprise;

- variable costs – includes energy costs but excludes wood costs;
- fixed costs – includes management fees, wages and maintenance; and
- planned depreciation – buildings and structure, machinery and equipment, other tangible asset.

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There was a variance of -0.3% from the cost in CTMS – Alytus which we did not consider material.

Cost items not accounted for in SAP revenue and costs are costs related to wood, transport and other costs in relation to the sale of products (including ocean freight and customs duties) and foreign exchange gains on purchases. As revenue for the products is reported as ex-factory the transport costs are not part of the CTMS. The foreign exchange gain on purchases was a minor amount accounting for approximately 0.16% of the costs.

Raw material cost comprises the log purchase cost for the December 2010 quarter plus overhead costs associated with the purchases less income from the sales of by-products net of transport costs. These amounts are identified in the SAP costs and revenue for the December 2010 quarter.

Items remaining in the SAP revenue and costs related to revenue, including forex gains and losses on sales and commission income. A copy of the SAP revenue and costs for the December 2010 quarter and the reconciliations to the CTMS sheet, the SAP cost centres is at **confidential attachments CTMS 3**.

SE Lietuva provided a copy of the Operative income statement by month and quarter for 2010, the operating profit for the December 2010 quarter on this statement was compared to the operating profit on the SAP revenue and costs. There was a variance of 0.1% which we did not consider material.

The key figures on the operative income statement for 2010 reconciled to the audited statements for SE Lietuva. The operative income statement and audited statements are at **confidential attachments CTMS 4**.

Having regard to the above, we consider the revised costs submitted by SE Lietuva are reasonably complete and relevant accounts of its actual costs to make and sell structural timber in the investigation period.

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### 9.3 Verification of production costs to source documents

We chose to examine the cost components of log costs, income from by-products and depreciation for verification to source documents.

#### 9.3.1 Log costs

We asked SE Lietuva to demonstrate that the raw material costs it submitted can be traced to source documents for the purchase of logs. The wood cost comprises price of purchased logs plus overhead costs.

SE Lietuva provided a general ledger printout of its log purchases for the December 2010 quarter; the total equalled the amount for wood purchases in the SAP revenue and costs for the December 2010 quarter.

We selected four entries in October and three entries in December from the general ledger printout and asked for supporting documents for those entries. SE Lietuva provided copies of intra company invoices from SE Wood Supply to the Alytus mill. The amounts on the documents matched the amounts in the ledger printout.

The overhead charge is shown separately in the accounts for wood costs as other services; this charge is for the services that SE Wood Supply provides such as  
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX [services provided].

The overhead charge is added to the log purchases in the general ledger to get a log purchase cost for the December 2010 quarter, the log consumption cost takes into account logs in stock and logs used during the quarter to get the log cost for the December 2010 quarter on the CTMS worksheet.

We asked SE Lietuva to provide invoices for December 2010 from the companies that SE Wood Supply bought from to check whether the charges from SE Wood Supply to SE Lietuva recovered all costs.

SE Lietuva explained that it was difficult to find an exact match for the logs sourced by SE Wood Supply and invoiced by the independent companies to the logs charged to SE Lietuva on the entries due to the range of companies and logs sourced and provided. SE Lietuva provided three invoices that detailed the prices and charges including a charge for loading the logs, separate invoices for transport of the logs were also provided.

We compared the prices of the logs on the invoices plus the loading and transport charge to the prices from SE Wood Supply to SE Lietuva. The comparison showed a range of prices for the different logs that were at times higher than and also lower than the price from SE Wood Supply to SE Lietuva. However the average price of the logs was lower than the average price from SE Wood Supply to SE Lietuva, there was also the overhead charge from SE Wood Supply that was separately charged and the SE Wood Supply income statement showed it traded profitably for 2010. We considered that all costs for the logs were being recovered and passed on from SE Wood Supply to SE Lietuva.

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These by-products are:

- Bark – produced when logs are debarked, XXXXXXXXXXXXXXXXXXXXXXXXXXXX  
XX  
XXXXXXXXXXXXXXXXXXXXXXXXXXXX [treatment of bark];
- Woodchips – XXX  
XXXXXXXXXXXXXXXXXXXXXXXXXXXX [treatment of woodchips];
- Sawdust – XXXXXXXXXXXXXXXXXXXXX;
- Shavings – XXXXXXXXXXXXXXXXXXX; and
- Residual product – XXXXXXXXXXXXXXXXXXX.

SE Lietuva provided a summary of invoices for sales of bark, wood chips and shavings and three selected invoices for the sale of woodchips; these documents are at **confidential attachment CTMS 6**.

Woodchips are sold to pulp mills and to garden supply companies, the selected invoices show sales to unrelated companies in XXXXXX and XXXXXX and a related Stora Enso company in XXXXXX. The price of wood chips to the related company in Russia was the same as the price to the unrelated company in XXXXXX. The price to the unrelated company in XXXXXXXX was lower as the delivery costs were less.

SE Lietuva provided a copy of its asset balances and book depreciation for 2009 and 2010. We calculated a depreciation charge for 2010 that was approximately XX lower than that on the operative income statement. SE Lietuva explained the difference was due to fixed assets write offs and provided documents to support the explanation.

SE Lietuva also identified the XXXXXXXXXX and XXXXXXXXXXXX [assets] in the depreciation listing. SE Lietuva provided details from its accounts system and from the audit report to show that the XXXXXX were depreciated over 20 years and the XXXXXXXX over 10 years which was consistent with the audit report.

Documents relating to depreciation are at **confidential attachment CTMS 7.**

**9.4 Verification of administration, selling and general expenses**

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SE Lietuva has accounted for its plant administrative costs within the administration cost centre, included in this cost centre are the head office management fees incurred. SE Lietuva explained that there are two such management fees; one in relation to the XXXXXXXXXXXXXXXX and one in relation to the XXXXXXXXXXXXXXXX.

SE Lietuva provided an attachment that showed all such management fees incurred throughout the investigation period. We noticed a discrepancy between the management fees charged to SE Lietuva from the attachment and the management fees showing in the SAP costs and revenue for the December 2010 quarter. SE Lietuva explained that the attachment only showed management fees charged from the XXXXXXXXXXXXXXXX and not those from the XXXXXXXXXXXXXXXX. SE Lietuva provided a printout from the accounts detailing the management charges that reconciled to the SAP costs and revenue.

Interest expense comprises interest income on loans and interest expenses on loans. Interest expense has not been included in the CTMS calculations. We calculated an amount of XXXXXXXX per m3 based on the interest expense for 2010 over the cubic metres sold.

We were satisfied that administration, selling and general expenses were included and correctly allocated to the goods.

The documents supporting the management fees are at **confidential attachment CTMS 8**.

**9.5 Costs to make and sell – summary**

The cost to make and sell structural timber is calculated as follows:

- Net raw material cost – comprising a Euro per cubic metre log cost grossed up to take into account losses from chipping and sawing of the log, documents supporting the yield (sawn timber output from log input) were provided. Income, net of transport cost, from by-products is deducted from the grossed up log cost;
- Process costs per cubic metre for log sorting, boiler room, kilning and sawing are added for sawn material costs. These costs are allocated over the number of cubic metres in each process;
- The net raw material and sawn costs per cubic metre are grossed up to take into account loss of wood from planning, documents supporting the planning loss were provided.
- Planing costs are allocated over the number of cubic metres of planed timber. General costs comprising storage packing costs, administration and common costs are calculated over the volume of material dispatched and sold. Costs relating to opticut are excluded;

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- The planning and general costs are added to the grossed up sawn material for a total cost to make and sell of structural timber.

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### *Finger jointed timber*

At the visit SE Lietuva proposed that the net material cost for finger jointed product should be zero. SE Lietuva said that finger jointed product was made by joining pieces of timber that was unsuitable due to its length to be sold as timber and would have been otherwise scrapped.

At the visit we advised SE Lietuva that some value should be assigned to the raw material and suggested that at a minimum it should be the revenue that would have been realised on the sale of the scrap timber. We advised SE Lietuva that the determination of what value to assign to the raw material would be discussed with the case management team and any views offered at the visit were not final.

Following our visit we discussed the issue of the cost of the raw material with the case management team.

We consider that the same raw material cost that applies to structural timber above should also apply to finger jointed product. Whether the timber was scrapped and sold these costs would still have been incurred as they would still have been incurred in deciding to make finger jointed product out of the material rather than selling it for scrap. In addition by deciding to further process the scrap product whilst incurring the extra costs of finger jointing a higher return on costs is achieved on those sales than would be achieved on sales of the product as scrap.

The cost of finger jointing as a process is identified in the CTMS worksheet; we have re-calculated the CTMS for finger jointed by adding the finger jointing cost to the CTMS for structural timber.

### **9.6 Costs to make and sell – conclusion**

We consider these costs to make and sell are a reasonably complete, relevant and accurate reflection of the actual SE Lietuva costs to make and sell the structural timber during the investigation period.

We consider 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.

The CTMS worksheet for structural timber which includes the recalculated cost for finger jointed product is at **confidential appendix 3**.

**10 ADJUSTMENTS**

We considered whether any adjustments were required to a constructed normal value to ensure it was properly comparable to export prices of structural timber exported to Australia.

We have calculated an export price at EXW level and therefore consider that no adjustment for inland freight is required to constructed normal values that are calculated as EXW.

We have not adjusted for differences in costs as these costs are based on the production costs of the exported product.

**10.1 Credit terms**

As mentioned earlier, the domestic sales spreadsheet provided by SE Lietuva in the response to the exporter questionnaire identified various payment terms, including options for payment in advance, payment on invoice date, payment within XXXXXXXXXXXX.

On the basis that evidence of payment indicated that payment was made reasonably consistently with the quoted terms, we calculated an average number of days credit on domestic sales in the investigation period was XXXXXX.

We asked SE Lietuva for evidence of a short term borrowing cost so we could measure the likely impact on price generated by extending credit. SE Lietuva explained that access to capital was an inter-group activity and there was no need for the SE Lietuva mills to borrow funds outside the group. An email was provided from its financial controlling team that stated the interest rate applicable to short term borrowings within the group was charged at LIBOR XXXXXX. Copies of the documents supporting the interest rate applicable to short term borrowings are at **confidential attachment ADJ 1**.

The average LIBOR rate for one month for the investigation period was 0.2518%, which provided for an average interest rate applicable to SE Lietuva of XXXXX. We used this in conjunction with the number of days credit to calculate an amount for credit applicable to domestic sales. In relation to export sales to Australia, we noted that payment was shown to be made on average XXXXXXXX the quoted terms of XXX days. The average LIBOR rate for six months was 0.4807% which provided for an average interest rate on export sales of XXXXXXXXXXXXXXXX.

We consider a negative adjustment for domestic credit should be incorporated within the constructed normal value because that constructed normal value was initially and notionally inclusive of domestic credit terms. We also consider a positive adjustment should be incorporated to bring the constructed normal value to XXXX credit terms and therefore a comparable basis to export sales.

**11 NORMAL VALUE**

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**11.1 Domestic sales not suitable**

Although the price paid for the goods in domestic sales of like goods was established satisfactorily, we consider that the difference between the domestic goods and exported goods in terms of specifications for the products are not able to be reasonable identified so as to be able to adjust for those differences for determining a normal value on the basis of domestic selling prices. Accordingly, normal value cannot be established using domestic selling prices in terms of section 269TAC(1) of the Act.

**11.2 Constructed normal value**

Based on the information provided by SE Lietuva, and the verification conducted on site, we are satisfied that the costs to make and sell established for the structural timber are suitable for determining a constructed normal value under section 269TAC(2)(c) of the Act.

In terms of profit, we note the Dumping and Subsidy manual provides that:

*In constructing a normal value, Customs may include an amount for profit. Where all sales are made at a loss, no profit is added. Where sales in the ordinary course of trade are not in sufficient quantities, an amount for profit may be added in constructing the normal value. However in this scenario, Customs will not base the profit amount upon the low volume of domestic sales that were found to be unsuitable for determination of a normal value under s. 269TAC(1) of the Act.*

Consistent with this policy, we will not apply the amount of profit that is applicable only to those sales of most comparable products – structural product specified to the European standards.

Customs Regulation 181A provides that, if reasonably possible, the profit must be worked out by using data relating to the production and sale of like goods by the exporter or producer of the goods in the ordinary course of trade.

We examined the information on SE Lietuva domestic sales of structural timber to European standards and the data for CTMS for structural timber for the investigation period.

In terms of profit, Customs Regulation 181A provides that, if reasonably possible, the profit must be worked out by using data relating to the production and sale of like goods by the exporter or producer of the goods in the ordinary course of trade.

To this end, we found that the profit achieved on domestic sales of XXX would be suitable for the construction of the exported grade of structural timber. This profit measured XX% as a percentage of revenue or XX% on the cost of the products.



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We consider that the profit of XXX% on these sales is an appropriate figure to use in a constructed normal value as we are confident that the costs for this product reasonably reflects all of the costs associated with the products.

In examining the data on sales of finger jointed product sold domestically and exported to Australia we could not identify a quantifiable difference in selling price between the comparable products to the finger jointed products. In considering that a selling price for finger jointed would be equal to a selling price for other structural product we noted the normal value for structural timber was below the CTMS for finger jointed product. We therefore an appropriate constructed normal value for finger jointed product is the CTMS with no profit added.

In constructing normal values, we consider that certain adjustments, in accordance with s. 269TAC(9) of the Act, are necessary to ensure fair comparison of normal values with export prices. Using the data verified we consider adjustments for differences in domestic and export credit terms are warranted and are therefore incorporated into the constructed normal value calculation.

The nature and extent of the adjustments are discussed in detail in the section above, and summarised in the table below.

Adjustment	Add to, or deduct from, domestic selling prices
Domestic credit terms	<b>Deduct</b> an amount based on the relevant number of days credit (XXXXXX) and an interest rate of XXXXX
Export credit terms	<b>Add</b> an amount based on XXXXX credit and an interest rate of XXXXX

Details of the constructed normal value calculations for SE Lietuva are at **confidential appendix 4**.

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12 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 s. 269TACB(2)(a) of the Act.

The weighted average product margin for structural timber exported to Australia by SE Lietuva in the investigation period was negative at minus 20.7%. Details of this calculation are at **confidential appendix 4**.

**13 LIST OF APPENDICES AND ATTACHMENTS**

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**Confidential Appendices**

Confidential appendix 1	Export price calculations and summary
Confidential appendix 2	Ordinary course of trade calculations and summary
Confidential appendix 3	CTMS Alytus
Confidential appendix 4	Normal value Dumping margin calculations

**Confidential Attachments****General**

GEN 1	Alytus mill presentation
GEN 2	SEWP presentation
GEN 3	Audit opinion

**Export Sales**

EXP 1	Documents re overstated inland transport
EXP 2	Credit invoice documents
EXP 3	Ocean freight, inland transport and port charges
EXP 4	Export sales documents
EXP 5	Credit terms actual payment periods

**Domestic Sales**

DOM 1	Sales summary 2010
DOM 2	Sales summary structural 2010
DOM 3	Domestic price analysis
DOM 4	Selected general domestic sales
DOM 5	Selected structural domestic sales

**Costs to make and sell**

CTMS 1	Quarterly CTMS
CTMS 2	Costs by cost centre Dec quarter
CTMS 3	Reconciliation of costs to GL Dec qtr
CTMS 4	Reconciliation to audited accounts
CTMS 5	Log costs
CTMS 6	By product income documents
CTMS 7	Depreciation
CTMS 8	Management fees

**Adjustments**

ADJ 1	Applicable interest rate
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