



**Australian Government**

**Australian Customs and  
Border Protection Service**

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**INVESTIGATION INTO THE ALLEGED DUMPING OF**

**CERTAIN STRUCTURAL TIMBER**

**EXPORTED FROM THE REPUBLIC OF AUSTRIA, CANADA, THE  
CZECH REPUBLIC, THE REPUBLIC OF ESTONIA, THE FEDERAL  
REPUBLIC OF GERMANY, THE REPUBLIC OF LITHUANIA, SWEDEN  
AND THE UNITED STATES OF AMERICA**

**Vaagen Bros. Lumber, Inc.**

**EXPORTER VISIT REPORT**

**November 2011**

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

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## 2 BACKGROUND

### 2.1 Introduction

On 5 August 2011, Building Supplies Group Holdings Pty Ltd, Hyne and Son Pty Ltd and Gunns Limited lodged an application requesting that the Minister publish a dumping duty notice in respect of certain structural timber<sup>1</sup> exported to Australia from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and the United States of America (USA). In this case the relevant Minister is the Attorney-General.

The application alleges that structural timber exported from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and the USA to Australia has been exported at prices less than its normal value and that this dumping has caused material injury to the Australian industry.

After considering the application, the Australian Customs and Border Protection Service (Customs and Border Protection) initiated an investigation under s.269TC(4) of the Act. Public notices relating to this investigation were published in *The Australian* newspaper on 9 September 2011, and in Australian Customs Dumping Notice (ACDN) No. 2009/41 (available on the Customs and Border Protection Internet site at [www.customs.gov.au](http://www.customs.gov.au)).

Within these notices, Customs and Border Protection advised that the investigation period is from 1 July 2010 to 30 June 2011. Customs and Border Protection will examine exports of structural timber from the nominated countries to Australia during this period to determine whether dumping has occurred. Customs and Border Protection also notified that it would examine details of the Australian market from 1 July 2007 for injury analysis purposes.

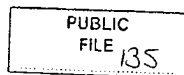
The application identified Vaagen Bros. Lumber, Inc. (Vaagen Bros.) as an exporter of structural timber to Australia during the investigation period. Consequently, Customs and Border Protection sent Vaagen Bros. an exporter questionnaire shortly after initiating the investigation. Vaagen Bros. provided a response to the questionnaire, and Customs and Border Protection arranged a visit to Vaagen Bros. to verify the information provided and to discuss other matters relevant to the investigation.

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<sup>1</sup> Refer to the full description of the goods in section 4.1 of this report.

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**2.2 Purpose of visit**

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

The company's exporter questionnaire response consisted of background to its activities, details of exports to Australia, details of domestic sales and information on the cost to make and sell the goods. The exporter questionnaire response was supported by attachments. A non-confidential version of the exporter questionnaire response was placed on the public record.

Verified information has been used to make preliminary assessments of:

- who is the exporter and who is the importer;
- export prices and normal values for structural timber manufactured by Vaagen Bros; and
- dumping margins.

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### 2.3 Interview – dates and persons present

The interview took place at:

Vaagen Bros. Lumber, Inc.  
565 w 5th Avenue  
Colville, WA 99114  
USA

Telephone: + 0011 1 509 684 5071

Fax: + 0011 1 509 684 2168

The following persons were present at various stages of the interview:

Dates:	9 – 11 November 2011
Vaagen Bros.	Mr David Bruce, Chief Financial Officer Mr Mike Beye, Chief Value Officer
Customs and Border Protection	Mr Bill Walsh, Policy and Operational Support Ms Rebecca Higgins, Operations 3

### 2.4 Cooperation and preliminary issues

Vaagen Bros. fully cooperated with the verification of details contained in the exporter questionnaire response, provided further information when requested and made appropriate staff available during the visit.

Vaagen Bros. has not previously been involved in an anti-dumping investigation. At commencement of the meeting we explained the background to the investigation, the Australian anti-dumping process and the following key dates for the investigation:

- A preliminary affirmative determination may now be made at any time. Provisional measures may be imposed at the time of the preliminary affirmative determination or at any time after the preliminary affirmative determination has been made. Customs and Border Protection would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice;
- at or before 28 December 2011, a statement of essential facts (SEF) will be placed on the public record, setting out the facts on which Customs and Border Protection proposes to base the recommendations to the Attorney General;
- 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;
- submissions received in response to the SEF will be considered when compiling the report and recommendations to the Attorney General;
- a recommendation to the Attorney General is due to be made in a report on or before 18 February 2012; and

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- Customs and Border Protection may request that the Attorney General extend the due date for the SEF which would also extend the due date for the final report.

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

- prepare a report of the visit;
- provide Vaagen Bros. with the draft report to review its completeness and accuracy of facts and calculations; and
- following consultation about confidentiality, prepare a report of the visit for the public record.

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**3 COMPANY INFORMATION**

Vaagen Bros. is a private company, the controlling shareholder of the company is Duane Vaagen.

Vaagen Bros. principal activities are the production of softwood random length framing lumber used in construction applications, and the production of timber fibre by-products including; chips, shavings, saw dust and bark. Vaagen Bros. also buys and sells land for the harvesting of timber and sell logs which do not fit its production profile.

Vaagen Bros. specialise in the production of framing timber and timber fibre by-products from small logs. Vaagen Bros. saw mills are only able to cut logs with a 4 ½ to 11 ½ inches in diameter. Vaagen Bros. explained that this specialisation in smaller logs is because historically of the competition for log supply is not a competitive for smaller logs and the use of smaller logs is a considered an environmentally sustainable practice.

Products manufactured include:

- Structural timber;
- timber used in non-structural applications including for the domestic home depot market, packing materials and for appearance applications such as decking;
- chips, sold to a local paper mill;
- sawdust;
- bark; and
- shavings.

Vaagen Bros. has two operating saw mills:

- Colville, USA – this is Vaagen Bros. main sawmill and corporate headquarters, this mill produces all of the Vaagen Bros. product range.
- Usk, USA – this mill produces semi-finished structural timber and timber fibre by-products. This mill does not have a kiln or planning facilities, timber is transferred to the Colville mill for drying and planning.

In the past the Vaagen Bros. operated a sawmill at Republic in the USA. Vaggen Bros. no longer owns this mill, however some expenses from these mill are still seen in their accounts.

During the visit Vaagen Bros. provided a tour of its saw mill at Colville, USA.

In its exporter questionnaire response, Vaagen Bros. provided a diagram of its production process, which is at **non-confidential attachment GEN 1**. During the visit Vaagen Bros. provided further detail regarding its production process, as follows:

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- Logs are brought into the yard, and are measured using the Scribner scale. This is a traditional log measurement commonly used in North America, the scale is a visual grading of the log, taking account of its dimensions and particular defects of the log. The scale measures the estimated board footage that will come from the log. This measurement may vary by 15-20 percent on actual board footage to come from the log. The logs are measured by process of sampling every eighth log. The Scribner scale is used to pay for the logs;
- The logs are then scanned and sorted, according to species, diameter, length and according to defects. Small logs and those with significant defects are sent to the whole log chipper, to be made into chips. The rest of the logs are sorted into piles according to diameter and species;
- The Vaagen bros. hew saw is a traditional curve saw. The saw is only able to be set in one cutting pattern at a time. Logs are feed into the saw, in a series of the same diameter and species and cut to a single pattern. Vaagen Bros. provided diagrams and information relating to these cutting patterns at **confidential attachment GEN 2**;
- The slabs of timber are then scanned, and trimmed according to the characteristics of the timber, including wane, knot and length structure. At this point, timber of high visual quality is identified, sorted and separated as candidates for Australian export product;
- The timber is either dried in the kiln or left as 'green timber'. Australian timber is dried for a longer period of time in the kiln, approximately 35 hours, compared to the domestic timber at 30 hours. This is to allow the timber to 'relax' to equalise the moisture in the timber so that it is able to adjust to the climate changes in Australia;
- Once dried the timber is stress graded, all timber goes through the same stress grader which is able to grade both MSR (USA standard) and MGP (Australian standard). The timber is then scanned, and a computer makes an assessment according to a matrix of the timbers characteristics and pricing information and planes the timber to a particular size. It is at this point that timber meeting the appropriate stress grade and that is of a high visual standard, is planned to an Australian export sizes; and
- The timber is then packed. Australian product timber is packaged in smaller packs to fit into shipping containers and has a slightly higher associated cost.

Vaagen Bros. stated that it does not have any treating facilities and does not treat its timber production.

Vaagen Bros. exporter questionnaire response indicated that timber sales represented approximately ■ percent (by value) of Vaagen Bros. overall sales value. We also noted that, during the investigation period, about ■ percent (by value) of Vaagen Bros. sales of structural timber were exported. Vaagen Bros. stated

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that currently export sales represent approximately [REDACTED] percent (by value) of their total timber sales.

Vaagen Bros. financial year is the calendar year from 1 January to 31 December. Vaagen Bros. provided a copy of its audited financial statements for 2009 and 2010, which are at **confidential attachment GEN 3**.

### 3.1 Related parties

Vaagen Bros. is the parent company of Vaagen Holding Co. which in turn is the parent company of Vaagen Fibre Canada, ULC. Both of these subsidiaries were incorporated in February 2011.

Vaagen Holding Co. and Vaagen Fibre Canada, ULC are in the process of opening a sawmill in Midway, Canada. These subsidiaries have been set up in relation to the operation of this mill, no start up or operating expenses from this mill will be attributed to Vaagen Bros.

Vaagen Bros. anticipates that this mill will begin operations towards the end of November, to early December 2011. When the Midway mill opens Vaagen Bros. intends to purchase semi finished structural timber (sawn and dried) from its subsidiary, and transport the timber to its Colville mill (approximately 50 miles away) for planning. Vaagen Bros. explained that the Midway mill will have an estimated capacity of 80,000,000 board feet (MBF) per year. Vaagen Bros. stated that some of the timber from this mill will be exported to Australia.

Vaagen Bros. explained that as a result of the 'Softwood Lumber Agreement' between the USA and Canada, logs and timber brought from Canada to the USA are subject to duties. These duties are calculated with reference to the Random Length (pricing) Index. Vaagen Bros. asserted that if logs or timber brought from Canada are at low prices duties can be as much as 15 percent. Vaagen Brothers provided a copy of the 'Softwood Lumber Agreement', at **non-confidential attachment GEN 4**.

Vaagen Bros. further explained that logs or timber brought into the USA for export are not subject to these duties, provided the goods brought in under a temporary import bond, meaning that these exact goods will be exported. Vaagen Bros. explained that in the future it may export goods to Australia from Canada through its Colville mill and these will be subject to the Canadian tariff rate of 5 percent in Australia.

Vaagen Bros. was asked provide details on its anticipated pricing between its subsidiaries. Vaagen Bros. explained that [REDACTED]  
[REDACTED] –[pricing information].

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## 4 GOODS UNDER CONSIDERATION AND LIKE GOODS

### 4.1 Goods under consideration

The application describes the goods under consideration (the goods) as:

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

- *Has a thickness exceeding 6mm;*
- *Has a cross-sectional area of less than 120cm<sup>2</sup>;*
- *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.

#### 4.1.1 Tariff classification

Structural timber is classified to the following tariff subheadings and statistical codes of Schedule 3 to the Customs Tariff Act 1995:

Tariff sub-heading	Stat code	Goods
4407		Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6mm
4407.10		Coniferous
4407.10.10		Planed or sanded
	22	Douglas fir;
	23	radiata pine - treated with waterborne preservatives
	24	Radiata pine treated with other
	25	Radiata pine untreated
	33	Other
4407.10.99		Other
		Having a cross-sectional area of less than 120cm <sup>2</sup>
	08	Douglas fir;
	09	radiata pine - treated with waterborne preservatives
	10	radiata pine - treated with other
	11	radiata pine - untreated
	12	Spruce; pine, NSA; fir
	13	Other

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Imports under tariff subheadings 4407.10.10 (statistical code 21) and 4407.10.99 (statistical codes 14, 15, 16 and 20) are not the goods the subject of the application.

Structural timber imported from the USA is free under the Australia-US free trade agreement. The general rate of duty is currently 5%.

Vaagen Bros. exported the following timber species, grades, cross sections and lengths of structural timber to Australia in investigation period:

Timber Species – Douglas Fir Larch, ESLPAF and Hemlock Fir

Cross Sections (mm) – 70x35, 90x45 and 90x75

Lengths (meters) – 2.3, 2.4, 2.7, 3, 3.6, 4.2, 4.8, 5.1, 5.4, 5.7 and 6

Grades – F8, MGP10, MGP 12 and MGP 15

Vaagen Bros. advised that all timber products exported to Australia are kiln dried, sanded on four sides and of a high visual quality.

Vaagen Bros. also exports weatherboards to Australia these timber boards are outside the size specifications of the goods.

#### 4.2 Like goods

Vaagen Bros. sell the majority of its production of framing (structural) timber on the domestic market. Vaagen Bros. provided the following overview of its timber products by characteristic.

##### Species

Vaagen Bros. explained that the following timber species are used in the production of its structural timber;

- Douglas Fir/Larch – combination of Douglas Fir and Larch;
- ESLPAF – Engelmann Spruce, Large Pole Pine and Alpine Fir; and
- Hem Fir – Hemlock and White Fir.

Vaagen Bros. stated that although some customers have a preference for a particular species of timber, largely there is no differentiation between species in structural timber applications. Vaagen Bros. stated that Douglas Fir has a higher nail rating when used in truss manufacturing, which will lower the steel costs for truss manufactures. Vaagen Bros. stated that prices between species over the past 3 years have been consistent. Vaagen Bros. asserted that all timber species are sold domestically and exported to Australia and that its Australian customer does not differentiate between species.

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Size

Vaagen Bros. sells timber on the domestic market with the following nominal board foot (MBF) cross sections –

1x4, 1x6, 1x8, 2x3, 2x4, 2x6, 2x8, 2x10, 4x4, 4x6, 6x6, 7x9, 47x149, 47x198, 47x77 and 175x28

For the timber with a cross section similar to that of the Australian export timber, Vaagen Bros. provided the conversion of nominal MBF to actual millimetres. Vaagen Bros. provided a spreadsheet and published documentation explaining the conversation factors and formula used to convert these measurements, these documents form **non confidential attachment GEN 5**. Vaagen Bros. further provided calculations demonstrating how these formulas were applied to its domestic and export sales spreadsheets, at **confidential attachment GEN 6**.

Nominal (MBF)	Actual (inches)	Actual (millimetres)
2x4	1.5x3.5	38x89
2x6	1.5x5.5	38x140
2x8	1.5x7.25	38x184

Grade

Structural timber in the USA is graded to a MSR grade. Vaagen Bros. uses a stress grader to bend and test deflection, this grader tests both MGP (Australian standard) and MSR (USA standards). Vaagen Bros. provided documentation comparing MSR and MGP grades at **confidential attachment GEN 7**.

Vaagen Bros. claimed that the following grades are comparable, noting however that these are not exact strength matches.

MSR (USA)	MGP (Australia)
1400F	MGP10
1800F	MGP12
2100F	MGP15

Visual Specifications

Vaagen Bros. explained that Australian timber market requires high visual specification product, with no wane and a good knot structure, unlike the domestic

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market which will accept product with 'want and wane'. For this reason Vaagen Bros. explained it did not include in the 'like goods' in its exporter questionnaire response timber with a grading 1400F-1800F, which although comparable to the MGP grades in terms of strength rating, is not likely to meet visual specification requirement for export product. Vaagen Bros. selected 2100F, 2400F and 2850F stating that these high strength grades have minimal or no wane.

Vaagen Bros. identified two further products which it considered to be 'like goods' to Australian export timber. The 'Appearance' grade, this product is identified as a high quality visual product, and is sold for appearance applications such as decking. This product is not stamped with a grade (because customers require the product to be free of markings). The other is the 'Hampton' grade - this product is sold to the home store market - again this product is not stamped with a stress grading, and is selected for its high quality visual characteristics.

**Lengths**

Vaagen Bros. claimed that length of the timber did not influence the price significantly. Customs and Border Protection undertook an analysis of domestic and export prices by length and noted that while there was some variation in price by length there was not a significant price differentiation.

**4.3 Conclusion**

We consider the following timber species, grades and cross sections sold on the domestic market are similar to the structural timber exported to Australia and are like goods.

Volume (m3)	2100F	2400F	2850F	APPEARANCE	HAMPTON	Grand Total
<b>Douglas Fir Larch</b>						
2X4						
2X6						
<b>Hemlock/ White Fir</b>						
2X4						
<b>Grand Total</b>						

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**5 EXPORT SALES TO AUSTRALIA****5.1 General**

During the investigation period, Vaagen Bros. exported structural timber to one customer in Australia, Moxon and Company Pty Ltd (Moxon). In aggregate, Vaagen Bros. exported [REDACTED] cubic meters (m3) of structural timber to Australia in the investigation period.

Volume (m3)	F8	MGP10	MGP12	MGP15	Grand Total
<b>Douglas Fir Larch</b>					
70X35					
90X35					
90X45					
<b>ESLPAF</b>					
70X35					
90X35					
90X45					
<b>Hemlock / White Fir</b>					
70X35					
90X35					
90X45					
<b>Grand Total</b>					

Structural timber with an MGP 10 grade accounts for 80% of the export sales to Australia. MGP 12 grade accounts for the remainder (i.e. F8 and MGP 15 are negligible).

Vaagen Bros. described the export transaction process as operating in the following way:

- Moxon provides Vaagen Bros. an inventory list on a weekly basis, identifying stock holdings, stock in transit and forecasting stock requirements, known as SOH-SIT list. Vaagen Bros. in its exporter questionnaire response provided examples of these SOH-SIT inventory lists, at **confidential attachment EXP 1**;
- Moxon and Vaagen Bros. communicate regularly; discussing log supply and likely production capacity to meet forecasted stock requirements. From these discussions Vaagen Bros. produces a production schedule;
- Once the products are produced, Vaagen Bros. enters the products into its inventory;
- The export product is railed to an inventory yard close to the Vancouver Port (Washington State), the stock is then entered into the reload inventory;
- An employee of Moxon assess the reload inventory, and arranges shipment of required stock. A sales acknowledgement and bill of lading is

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issued for the required stock. Vaagen Bros. pays for the 'stuffing and dryage' of the product to the Port;

- On the date of sail of the ship, an invoice is issued to Moxon. This invoice is from Vaagen Bros. however it is the Moxon employee who raises the invoice using Vaagen Bros. systems; and
- Moxon makes lump sum payments to Vaagen Bros. which allocates sums to invoices, based on the oldest invoice being paid first.

Vaagen Bros. stated that sales prices to Australia are not based on list prices. Prices have been negotiated informally, and have been generally consistent over the past three years. Prices are subject to change to reflect changing production costs or market conditions. Vaagen Bros. provide examples of pricing negotiation via emails, at **confidential attachment EXP 2**.

At the visit Vaagen Bros. stated that it provided no discounts or rebates to Moxon.

The delivery terms of sale were stated as 'prepaid' in the exporter questionnaire response. Vaagen Bros. explained that 'prepaid' indicates that Moxon pays for the shipping including the loading the goods onto the ship. Vaagen Bros. stated that it pays the inland freight, stuffing and dryage. Stuffing and dryage includes containerising the goods, unloading the goods from the rail cars, inventory holding and delivery to the Port. This description indicates that the delivery terms are free alongside (FAS).

All transactions were invoiced in Australian dollars (AUD). Vaagen Bros. stated that it accepts the foreign exchange risk and hedges this risk based on estimated production. At the time of payment Vaagen Bros. decides whether to exercise the option under the hedging policy, to 'spot-rate' or a mixture of these two options. A copy of Vaagen Bros. hedging policy is a **confidential attachment EXP 3**.

**confidential attachment EXP**

4. Export credit terms are discussed further in the adjustments section of this report.

Vaagen Bros. stated that each container of the goods has its own sales acknowledgement generated, hence a number of sales acknowledgements may be linked to the same invoice. Vaagen Bros. explained that because a shipment booking requires an invoice, the Moxon employee, who arranges shipment, generates this invoice on behalf of Vaagen Bros. in order to make the booking.

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[REDACTED]

The invoice is generated using timber species, cross section, length, grade and finish, for each product type. The invoice states pieces per pack, quantity in meters cubed and unit price. The net value is quantity multiplied by the unit price.

In its exporter questionnaire response, Vaagen Bros. provided an export sales spreadsheet, including details of all sales by invoice to Australia during the investigation period. This information was obtained from Vaagen Bros. financial system and included reference to:

- customer;
- product description;
- product code;
- invoice number and date;
- shipping and payment terms;
- quantity (meters cubed as well as a conversion to MBF);
- transaction amount (in AUD as well as the estimated exchange rate in USD);
- rail freight; and
- stuffing and dryage.

Vaagen Bros. also provided documents supporting two sample shipments in its exporter questionnaire response and we verified the information for these shipments to the export sales spreadsheet. The documents provided included:

- sales acknowledgement;
- packing list;
- invoice;
- bill of lading (for inland transport to inventory yard in Vancouver, Washington State);
- allocation report; and
- deposit listing.

These documents form **confidential attachment EXP 5**.

### 5.2 Verification of export sales to general ledger

As our primary test of completeness and relevance for export sales, we ensured the details of the structural timber exported to Australia by Vaagen Bros. in the investigation period matched the details verified at the visit to Moxon. In relation to each importer verified shipment, we found the details to be consistent between exporter and importer records. Customs and Border Protection noted that there was a discrepancy in overall volume and value between exporter and import records, this is likely to be due to timing differences.

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Vaagen Bros. advised that its accounts do not differentiate between export and import sales. Customs and Border Protection reconciled total export and import sales to the general ledger over the investigation period. For the previous financial year, Customs and Border Protection was also able to reconcile the general ledger to audited accounts for that year. Further discussion of this upwards verification is at **section 7.6** of this report.

### 5.3 Verification of export sales to source documents

Prior to the meeting we requested that Vaagen Bros. provide supporting documents for 12 selected shipments. Vaagen Bros. provided these documents at the meeting. The documents are at **confidential attachments EXP 6**.

Vaagen Bros. provided at the meeting evidence of payment of the selected shipments in the form of a deposit listing from its bank, Wells Fargo, these form part of confidential attachment EXP 5. Vaagen Bros. also provided financial report 'A/R Payments/ Deposits Listing' identifying the allocation of these deposits to invoices over the investigation period, at **confidential attachment EXP 7**.

Vaagen Bros. export sales spreadsheet provided an estimated exchange rate. The actual exchange rate is determined upon payment by Moxon. In addition to the 'A/R Payments/ Deposits Listing', Vaagen Bros. provided a financial report detailing actual exchange rates for each deposit, at **confidential attachment EXP 8**. From this additional information Customs and Border Protection amended the export sales spreadsheet to include actual exchange rates, noting that because a single invoice may have a number of deposits applied to it with differing exchange rates, an average exchange rate was applied to these transactions. Customs and Border Protection analysis indicates that the difference between estimated and actual exchange rates as applied to the total value of structural timber exports over the investigation period is a \$ [REDACTED] (USD) increase on the export price.

Vaagen Bros. exporter questionnaire response identified rail freight costs for some shipments. Vaagen Bros. explained that during the investigation period, it utilised two methods to transport export timber from the mill to the port. The first method provided by Inland Empire Distribution System, was a 'door to door' service, the fee included containerising the goods and transportation to the port. For these shipments the 'stuffage and dryage' includes all transportation costs. Vaagen Bros. later moved to a system whereby the export goods are railed to the reload inventory yard near the port, the goods are then unloaded, containerised, held and later delivered to the port, for these shipments there are separate rail freight costs identified in the exporter questionnaire response. Because the goods when railed are not yet identified for particular orders, Vaagen Bros. provided a rail freight calculation, demonstrating the cost per meter cubed to transport of the goods to its inventory yard, at **confidential attachment EXP 9**. Vaagen Bros. demonstrated how it calculated an average cubic meter volume per rail car, by generating a report showing the total cubic meters of timber transported by rail, and dividing this by the number rail cars used, this report is available at **confidential attachment EXP 10**. Vaagen Bros. provided a selection of rail freight invoices to test the reasonableness

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of their rail freight allocation costs, at **confidential attachment EXP 11**. Customs and Border Protection noted that although there was some variation due to varying fuel surcharges, the allocation was reasonable.

Vaagen Bros. also provided a copy of 'stuffing and dryage' charges for each selected invoice. These documents form part of confidential attachment EXP 5. Customs and Border Protection notes that there is some minor variation in costs recorded in the export sales spreadsheet. Vaagen Bros. explained that the stuffing and dryage charges in the export sales spreadsheet are estimated costs based on the quoted invoice for stuffing and dryage. Vaagen Bros. provided a reconciliation showing actual 'stuffing and dryage' costs as invoiced and paid by Vaagen Bros., at **confidential attachment EXP 12**. The difference between estimated and actual 'stuffing and dryage' costs is [REDACTED]. Customs and Border Protection noted this slight variance, and considers that amounts recorded in the export sales spreadsheet reasonably reflect the stuffing and dryage costs as shown in the selected invoices.

We are satisfied that the export sales spreadsheet, accurately reflects Vaagen Bros. exports to Australia of structural timber, and the price paid for those goods, during the investigation period.

#### 5.4 Date for comparison of export and domestic sales

Vaagen Bros. agreed that the relevant date for the comparison of export and domestic sales was the invoice date. Customs and Border Protection usually uses the invoice date as the date of sale.

#### 5.5 Forward orders

As noted above, Moxon places orders with Vaagen Bros. by providing Vaagen Bros. with a SOH-SIT inventory list. Vaagen Bros. assess this list and determines whether it has production capacity to meet these forecasted requirements.

Vaagen Bros. provided the latest Moxon SOH-SIT inventory list, dated 18 November 2011, at **confidential attachment EXP 13**.

#### 5.6 The exporter

We consider Vaagen Bros. to be the exporter of the goods, from the USA to Australia. Vaagen Bros;

- is the manufacturer of the goods and manufactured the goods to the specific order of the Australian customer;
- owned the goods at the time of export;
- is listed as the supplier on the bill of lading;
- invoices the Australian purchaser for the goods;
- pays the inland freight and

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- 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.

#### 5.7 The importer

All sales of structural timber to Australia by Vaagen Bros. in the investigation period were to Moxon. We consider that Moxon was the beneficial owner of the goods at the time of importation. The beneficial owner is considered to be the one who was entitled to all the benefits associated with ownership even though they may not be the legal owner of the goods. We noted that Moxon:

- negotiated with Vaagen Bros. and Vaagen Bros. considered Moxon was the customer;
- is named as the consignee on the bills of lading; and
- arranges Customs clearance, logistics, and storage of the goods after they're delivered to the Australian port.

#### 5.8 Arms length

In respect of Vaagen Bros. sales to Australia 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, 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 the sales of structural timber by Vaagen Bros. to Moxon were arms length transactions. We note that this conclusion was also reached in the Moxon visit report.

#### 5.9 Export price – preliminary assessment

We are satisfied that:

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

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We consider that the export price for these sales can be determined under s. 269TAB(1)(a) using the invoiced price less any part of that price that represents a charge in respect of the transport of the goods after exportation or in respect of any other matter arising after exportation.

Ex Works (EX) export prices have been calculated for each export transaction. Details of the export price calculations and summary export prices are at **confidential appendix 1**.

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### 6 COSTS TO MAKE & SELL

#### 6.1 General

The accounting system has a cost centre for each mill (Colville and Usk). Within each mill there are cost centres for main departments – log yard; whole log chipper (WLC); sawmill; boiler; kiln; planer; and the plantation plant ('grinder'). Each of these also has their own profit centre with the exception of the WLC – this is because it is not possible to record the quantity of chips produced by the WLC.

The allocation of chips from the WLC when working out costs is discussed below.

Vaagen Bros. is required to report their monthly financial statements to their Bank. The financial statements are prepared on a GAAP basis. Vaagen Bros. is not under any legislative requirement for internal control for auditing because it is a private company. However, an annual audit is required by their bank using an external accounting firm (BDO USA, LLP). The audited statements are only made available to their bank and insurance company – Vaagen Bros. requested they be treated as being confidential (audited financial statements are at confidential attachment GEN 2). Tax reporting is also undertaken by a third party (BDO Seidman).

Vaagen Bros. provided an overview of its accounting structure, which is broken down by location, then department, followed by profit centres. Vaagen Bros. provided overview of its accounting structure including identification numbers for each department, at **confidential attachment CTMS 1**.

Four main information systems are used. 'Great Plains' is Microsoft software for the General Ledger (GL). 'Lumber Track' maintains records of the lumber inventories using a tagging system (a product of Progressive Solutions). 'Lims' maintains records of logs and by products. 'Scales' maintains records of load data for input into these other systems.

All of these systems are subject to audit during the year end audit as they are relied on to prepare the financial statements. The audit will look for example at all invoices produced by lumber track and check on a sample basis.

##### 6.1.1 Inventory valuation

The audited statement and Vaagen Bros.'s questionnaire response state that Vaagen Bros. has elected to use the LIFO inventory valuation method.

Vaagen Bros. explained that inventory should be valued at the lower of cost or market (net realizable market value for finished goods). The calculated market price can be written down by a further 4% - the GAAP in US require that the write down allow a reasonable profit margin which is taken to be 4%. Vaagen Bros. provided their market versus cost calculation for inventory for July 2010, at **confidential attachment CTMS 2**.

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[redacted] [treatment of by products in costs]

[redacted] [explanation of by products treatment and inventory valuation]

Inventory valuation is connected to this treatment of by products which is discussed separately below.

In summary Vaagen Bros. are using a market valuation to establish the cost for lumber in the GL. LIFO is used for log valuation and the auditors report at page 15 refers to log valuation, at confidential attachment GEN 2. The market versus cost calculation for July 2010 were shown and the adjusting entry to bring inventory to a market value as calculated in that worksheet was seen to be carried into the cost of goods sold, this worksheet is at **confidential attachment CTMS 3**. The 'LIFO Reserve' and adjusting entries bring inventory to market value.

**6.1.2 Costs as ordinarily recorded in the process cost system and submitted to Customs and Border Protection in response to the Exporter Questionnaire**

The cost to make the goods as ordinarily recorded by Vaagen Bros. and presented in the process cost calculations do *not* use LIFO. There is no inventory reserve beneath the cost of manufacture (COM). The inventory reserve adjustment only appears as an adjusting entry to cost of sales at a higher level as part of the other adjusting entries made that link costs to the GL.

The process costing calculations for COM and which were the subject of the verification use FIFO. Hence, the main tab after the summary has the title 'CurrMonFIFO'.

Vaagen Bros. provided cost information for each month of the investigation period, at **confidential attachment CTMS 4**. Vaagen Bros. provided audited statements for the years ended December 2009 and 2010, at confidential attachment GEN 2. For

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each month of the investigation period it also provided the balance sheet, statement of operations, and cash flow, at **confidential attachment CTMS 5**.

The monthly detailed worksheets detail costs associated with every stage of the production process – based on inventories at the log, green and rough dry stages. Each month includes a reconciliation to the income statement for that month.

The detailed cost calculations were not prepared especially for Customs. The only exception was the addition of a costing summary tab placed at the start of the series of worksheets which summarises the costs for each of the departments identified in the detailed process costing workings i.e. material costs; sawmill costs; kiln costs; surfacing (planer) costs. This summary was added simply to assist Customs and Border Protection.

The costs presented for verification therefore showed in summary form;

- Materials costs
- Sawmill costs
- Kiln costs
- Surfacing costs
- (Total cost to make)
- Selling costs
- Shipping costs
- Freight
- (Total cost to make and sell)

Next to the summary were 10 worksheets which are usually maintained by Vaagen Bros. in their costing system. These detailed process costs calculate the actual cost to be added to the ending inventory which, as discussed above are FIFO. Costs are shown for other plant locations which are Usk and the Athol yard. The detailed costings set out every stage of the process and inventory is recorded at log, green and dry stages. After adjusting entries the net income is calculated within the spreadsheet. This amount links directly to the financial statement for that same period.

For the year ended December 2010 (which includes 6 months of the IP) Vaagen Bros. provided the same cost process sheets as well as a summary page as was done for each of the months in the investigation period, at confidential attachment CTMS 5.

## 6.2 Verification

### 6.2.1 Year Ending December 2010

We asked Vaagen Bros. to show how the cost process calculations for the year ended December 2010 could be tied to the audited financial statement for the year

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ended December and to relevant GL entries. The purpose was to test the veracity of the process cost workings by examining some of the significant amounts.

Vaagen Bros. ordered a hard copy of the process cost statement for the year ended December 2010 and made it available at the meeting. Soft copies were provided at a later date, which had also included the summary page, **confidential attachment CTMS 6**.

Vaagen Bros. also provided a file that contained balance sheets, income statements, cash flows, balance sheet ratios, with tabs identifying each operational area, for the financial year ending December 2010, **confidential attachment CTMS 7**. A combined statement summarised all main items. Behind that in the file data was broken out into GL details for each cost centre.

The cost process sheet showed an amount of [REDACTED]. We asked Vaagen Bros. to provide a copy of the details as recorded in 'Lumber Track'. A 'loads summary' report was printed and showing for the year a list of all product types, the number of loads and tons, **confidential attachment CTMS 8**. In the case of round wood it also showed in addition to tons the MBF measure and the CCF measure. Purchases for Colville were shown to be [REDACTED]. There was a small (immaterial) difference to the amount recorded in the process costing.

The total revenues shown in the audited financial statement were [REDACTED]. The amount shown in the process costings and supporting details was [REDACTED] which includes intra company amounts. Vaagen Bros. provided a detailed income statement which showed adjustments made for those intra company transfers and when these are taken into account total revenue was [REDACTED]. Revenue was overstated by [REDACTED] which amount is immaterial. These are at **confidential attachment CTMS 6a**.

Similarly, for cost of revenues there was an immaterial difference between the detailed information and the audited statement.

The amount in the process costing for total log purchases for Colville checked to the log procurement GL entries (excluding logs purchased for pulp only).

#### *Forestry and yard allocation costs*

To the raw materials cost of logs Vaagen Bros. adds, as a next step in the cost process, an amount for 'forestry and yard allocation'. This cost has been added at a historical rate of [REDACTED] per MBF. The purpose is to account for seasonality (as there is a cycle to log deliveries wherein the large volumes are delivered in 4 or 5 months of the year. If it was not treated in this fashion VB said that costs would be unreasonably skewed. The actual costs differences are taken to the Profit & Loss statement (P&L).

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We indicated in the meeting agenda that we wanted to check this allocation. For the year ended December 2010 total amount that had been allocated was [REDACTED]. We looked at the amending entries that had been made to take account of the variation – the adjusting entry was [REDACTED] which is immaterial (and if an adjustment were to be made for this adjustment it would reduce costs).

#### *Treatment of rough green lumber*

For the year ended December 2010 the sales of rough green were [REDACTED] which is less than [REDACTED] of total saw mill production. The costing process shows that this is sold out at its own COP i.e. it is not carried through to the production of dried lumber. The purpose of the process costings is to fully cost dried lumber.

#### *Other checks*

We checked all of the inventory adjustments that had been shown on the process cost to the detailed Trial Balance i.e. for green, rough dry and surfaced - **confidential attachment CTMS 6b**.

We checked the net income as calculated in the process costs. Net income in the audited financial statement is [REDACTED] – in the cost process data it is [REDACTED]. The small difference of \$[REDACTED] only was found to be an adjustment made to the financial statement for a depreciation expense that had not been recorded in the GL. Vaagen Bros. provided details of the adjusting entry. It is immaterial – see **confidential attachment CTMS 9**.

The lumber sales shown in the detailed cost process workings when summed for the 3 locations equated with the amount shown in the turnover statement. Volumes were verified separately when examining 'completeness' of sales.

### **6.2.2 Month Ended July 31 2010**

We sought to verify how the cost process calculations for this month could be tied back to relevant GL entries and certain source documents. The purpose was to examine in some more detail the amounts shown in the process costing.

As in the case of the year ended December Vaagen Bros. provided a file that contained balance sheets, income statements, cash flows, balance sheet ratios, with tabs identifying each operational area, for the period July 2010 at **confidential attachment CTMS 10**. A statement summarised all main items and behind that the file showed detailed GL accounts.

Purchased logs less pulp BF: the volume of logs delivered into Colville. It was checked to the load summary report extracted from Lumber Track.

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Woods sale deck BF: the volume of logs sold directly from the woods. Checked for both Colville and Usk to loads summary report. A small difference noted for Colville is immaterial. **Confidential attachment CTMS 11** – loads summary report.

Total log purchases USD: this amount was checked to the GL detail for accounting department 305 – log procurement – after backing out logs used in pulp.

Forestry and log yard allocation USD: this is the same amount calculated for the year ended December 2010. An explanation has been provided above.

Mill maintenance and Mill administration USD: checked to GL and allocation used – these are maintenance and admin expenses incurred with the WLC.

Logs sold from yard at cost BF: checked to the load summary

Log ending inventory is measured physically at the end of each month.

Sawmill production from logs BF: the production of actual lumber is recorded on a lumber MBF basis. We checked this amount in the cost process calculations to the Lumber Track report which is total Colville sawmill stacker production (**confidential attachment CTMS 12**). Usk transfers in must be excluded in order to calculate the amount for Colville only. When this had been done it confirmed the volume that had been shown for Colville.

Sawmill costs: We checked that the amount shown in the process cost calculations matched the cost of the sawmill as recorded in the GL.

Mill maintenance and Mill administration USD: These are maintenance and admin expenses incurred in the sawmill. As above checked to GL and allocation.

Rough transfers at rate (Usk to Colville) BF and USD: The volume had already been checked and we confirmed that the Usk value had been transferred in at the higher cost of manufacture (owing to higher depreciation charges) as calculated for Usk (about 20% higher than for Colville).

Shipments out at cost BF and USD: this records shipments straight from the sawmill. Like sales of rough green it cannot be part of any on going costing process to cost finished dried lumber. Vaagen Bros. explained that this type of lumber is used for crane mats, or was cedar boards.

Kilns: Boiler Actual; and Mill maintenance and administration (allocation): These costs were tied back to the GL. For the allocations they were tied to the GL and to the allocation method that had been used (a long standing method).

Planing and surfacing: As in the case of the other cost centres/plant we tied the amount shown in the cost process calculations directly to the detailed GL.

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The net income as calculated links to the income statement for the month.

**6.2.3 Log costs**

The summary table shows as its first item materials costs. This is the actual cost measured in a nominal MBF basis. Materials cost represents over 90% of the COM. Although we had shown how the costs tied into the income statement, we also examined the log costs to source records.

For the month of July 2010 the total value of log purchases, which had backed out log purchases used for pulp, was [REDACTED] and the volume of log purchases was 11,534,792 BF. The unit price was [REDACTED]. We asked Vaagen Bros. to provide evidence in support – contract details current in that period were provided, at **confidential attachment CTMS 13**.

**6.2.4 Other costing issues**

*By products*

As noted above if Vaagen Bros. had ordinarily accounted for by products it would not follow a practice of writing inventory to the market.

To determine the *true* COM the by product revenue that derives from the logs used in the sawmill to make lumber must be added back to truly represent the cost to produce that lumber. Typically less than 50% of the log processed in the sawmill makes lumber – as small log sizes are used this affects the recovery rate. The balance is ships, bark (fuel), sawdust, and shavings. These by products are usually accrued in revenue within 3 days of production.

The summary tab that had been included with the process costs had included the valuation of by product.

The process cost calculations only include logs that have gone to the sawmill. (Logs used in the whole log chipper (WLC) are not included). Chips produced by the WLC and the sawmill share the same belt to the bins. As actual production of chips from the sawmill is not known for this reason an estimate is required.

This estimate uses the actual production from the sawmill (see verification above) and applies a factor of [REDACTED] which is used as part of the calculation to estimate the number of truck loads of chips that came from the sawmill.

This factor of [REDACTED] was said to have been determined from tests which show that a factor of [REDACTED] estimates the BDU basis of chips. We accepted this factor had common application. (Chips are measured on a weight basis which is BDU's – moisture content is tested and when discounted payment is by the dried weight).

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There are 16BDUs per truck. Using this methodology it had been estimated that there were ~~xxx~~ truck loads of chips from the sawmill.

From the delivery summary it was known that [REDACTED] loads of chips had been delivered. We obtained a copy of that load summary report - **confidential attachment CTMS 14**. The estimated [REDACTED] truckloads of chips from the sawmill is [REDACTED] of total truck loads of chips. This factor was applied to the total of chip and bark sales from Colville to estimate the by product value of sales of chips and bark that is associated with the sawmill. (The remaining chip shipments – [REDACTED] loads – were allocated to the WLC and are not taken into account when working out by products adjustment as already).

The sawdust and shavings are only from the sawmill and 100% of the sales of these by products has been used.

A similar process was followed for Usk – these calculations yield a somewhat higher allocation (but for a much smaller volume) of chip sales from the sawmill.

We worked though these calculations. We looked at a simpler allocation method and this yielded an amount of [REDACTED]. This compares to an amount originally estimated of [REDACTED] and the original estimate has been affirmed.

VB provided a statement about its allocation of costs and treatment of by products – **confidential attachment CTMS 15**.

*Sawmill costs*

The sawmill cost is the weighted average of the sawmill and maintenance costs for both Colville and Usk. Using a preferred averaging yielded a slightly higher average cost over the investigation period of [REDACTED] higher. Although some individual months were higher (one by [REDACTED] for May 2011) and some by [REDACTED] (December 2010, and February and March 2011).

The monthly costs were revised accordingly.

*Grades (Finishes)*

It is apparent from the above that Vaagen Bros. does not ordinarily measure costs differently between different grades of lumber.

Vaagen Bros. explained the reasons. When producing lumber all material that is sold must go through the sawmill, kilns, planer and shipping. That is, they all share the same process. There are no additional processes undertaken to produce higher graded timber as compared to economy or lower graded timber.

The way the timber is graded is through a machine graded system from MetriGuard. Moisture measurements are taken. Photos are taken using the Fin Scan system.

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Every board that has been surfaced goes through this system and a grading decision is taken after this process. So, according to Vaagen Bros. an economy brand worth [REDACTED] has the same cost as a high grade 2850F board that has a worth of [REDACTED]

VB provided a statement explaining why no additional costs are incurred through the process of making different grades of timber - **confidential attachment CTMS 16.**

### *Additional costs incurred in producing the exported goods*

At verification we observed that some additional costs are incurred in producing the timber exported to Australia. These were in relation to kiln drying; planer; and packaging. There were additional planer and drying hours associated with the timber exported to Australia.

VB produced at our request an adjusted CTMS. VB calculated a factor for the additional kiln drying cost based on the additional drying time and the additional surfacing/package costs based on the additional production hours.

Such costs for the Australian products were compared to the similar species and sizes of domestic products (DFL 2X4; ESLPAF 2X4 and HF 2X4). This showed that the exported goods incurred additional costs of [REDACTED]

We have adjusted the CTMS for the exported goods to account for these additional costs.

### *Non operational items*

We examined exchange rate adjustments/expenses within selling expenses. They were insignificant. **Confidential attachment CTMS 17.**

## **6.3 Conclusion on cost to make and sell**

After revision of sawmill costs we were satisfied that the cost to make and sell provided by Vaagen Bros. has been supported by evidence and that it reasonably reflects the true or actual cost of producing the 'finished dried lumber'.

Cost to make and sell calculations are at **confidential appendix 3.**

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

During the investigation period Vaagen Bros. sold structural timber in the domestic market. There is a wide range of cross sections; grades; finishes and a range of log species.

Within that 93,000 MBF there are sales of finished timber that is kiln dried and surfaced four sides – for the same species sold to Australia. This volume of sales included cross sections: 1X4; 2X10; 2X4; 2X8 and strength grading (MSR standard); 1650, 1800, 1950, 2100, 2250, 2400 and 2850.

When those sales are further narrowed to cross sections 2X4 and 2X6 only; and only to strength ratings 2100F; 2250; 2400; 2850 - the volume of domestic sales in the investigation period is just over 20,000 MBF. Even though this range starts at 2100 – which is higher than the MGP 10 and 12 grades sold to Australia - it satisfies a appearance requirement that it be wane free like the exports to Australia.

VOLUME (MBF)	2100F	2400F	2850F	APPEARANCE	HAMPTON	Grand Total
Douglas Fir Larch						
2X4						
2X6						
Hemlock Fir						
2X4						
Grand Total						

Structural timber in the USA is sold using a nominal MBF measurement. Vaagen Bros. provided calculations converting this nominal measurement to actual for the purpose of comparison, at non-confidential attachment GEN 5. The volume of these sales over the investigation period converted to actual cubic meters is [REDACTED] (see the like goods section 4.1 above - where sales volume in meters cubed is shown for the same products).

Vaagen Bros. advised that structural timber is sold in the USA as a commodity; heavily influenced by the Random Pricing Index. The Random Pricing Index is a weekly publication of pricing of softwood random length timber, gathered from sampled buyers and sellers in the USA and Canada.

Vaagen Bros. further commented that the timber market in the USA collapsed during the global financial crisis due to the downturn in the housing market, the market has with the exception of some spikes largely not yet recovered.

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### 7.2 Levels of trade

In its response to the exporter questionnaire, Vaagen Bros. did not indicate the level of trade of its customers. Vaagen Bros. explained that in the USA domestic timber market there is little face to face contact with customers. Vaagen Bros. is of the opinion that the majority of its customers are distributors.

Vaagen Bros. asserted that timber in the USA is sold as a commodity, and its prices to customers are not differentiated by level of trade.

### 7.3 Seasonal factors

Vaagen Bros. explained that the building seasons in the USA are different for each region. In the south building can take place year round. In the north, depending on the region, the building season is generally from March through to October.

Vaagen Bros. claimed that prices don't necessarily follow the building seasons. Most prices are driven by supply and demand pressures and when home building slows, production is usually curtailed.

We consider that any normal value for structural timber exported to Australia should be based on a quarterly result.

### 7.4 Sales to related parties

Vaagen Bros. stated that it has no related customers. Vaagen Bros. advised that it does have contracts with some its customers. For example, its [REDACTED]

[REDACTED] [description of one major customer's pricing structure]. These contracts however do not require Vaagan Bros. customers to buy particular volumes.

Customs and Border Protection noted that there were two employee sales in the domestic sales data under consideration; however these were for insignificant quantities.

### 7.5 Domestic sales process, pricing and terms

#### 7.5.1 General

Vaagen Bros. explained its sales process as follows:

- Customer makes enquiries over the phone about price;
- The salesperson negotiates the terms of the sale, including product, volume, price and delivery and a sales acknowledgement is generated;
- When the inventory is available, Vaagen Bros. shipping department is notified. The shipping department arranges shipping (if applicable), a bill of lading (for inland freight) is generated and the customer is notified;
- The customer is issued with an invoice and a receivable is generated; and

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- Payment is received and applied against the outstanding invoice per customer and applicable discounts are applied.

#### 7.5.2 Delivery terms

The domestic sales spreadsheet provided by Vaagen Bros. in the response to the exporter questionnaire identified the following delivery terms:

- "collect or FOB mill" – Vaagen Bros. explained that for these terms the invoice price for the goods does not include any consideration for freight. Customs and Border Protection noted that some sales in the domestic sales spreadsheet, identified as collect had freight charges allocated to these sales. Vaagen Bros. explained that freight can be later allocated (or not allocated) regardless of whether the ship terms are "Collect" or "Prepaid". Approximately [REDACTED] [percentage] of Vaagen Bros. domestic sales of timber were made with these delivery terms, which did not in fact include freight costs in the investigation period.
- "prepaid" – Vaagen Bros. explained that these terms indicate the invoice price includes delivery to the customers specified destination. Vaagen Bros. advised however that sales indicating prepaid terms may also include 'collect' sales. This is because to enable its system to include delivery costs at a later stage the 'prepaid' term must be selected. Where a customer later decides to collect the goods, no delivery is included in the price and there is no freight allocation however the prepaid term remains on the invoice. Approximately [REDACTED] [percentage] of Vaagen Bros. domestic sales of timber were made with delivery terms that were inclusive of freight.

#### 7.5.3 Payment terms and discounts

The domestic sales spreadsheet provided by Vaagen Bros. in the response to the exporter questionnaire identified various payment terms, including the following:

- 1% 10 Nett – Vaagen Bros. explained this 1% discount applies if payment is received with 10 days from the date of invoice, otherwise 30 days nett, from date of invoice;
- 2% 10 Nett – Vaagen Bros. explained this 2% discount applies if payment received within 10 days from date of invoice, otherwise 30 days nett, from date of invoice; and
- Nett – 30 days, full invoice amount.

Vaagen Bros. explained that the net amounts are the same as the invoice price, and any discounts to that invoice price are related to early payment.

Vaagen Bros. domestic sales spreadsheet identified and calculated the eligible discount and automatically applied this discount to each invoice. Customs and

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### Exporter Visit Report – Vaagen Bros. Lumber, Inc.

Border Protection requested Vaagen Bros. include in the domestic sales spreadsheet the date of payments and to identify whether or not the eligible discount was actually taken up by the customer.

Vaagen Bros. provided a reconciliation showing payment dates for each invoice over the investigation period, as well as the actual amount paid including applicable discount, and any amounts 'written off', this reconciliation is at **confidential attachment DOM 1**.

Customs and Border Protections analysis found that [REDACTED] of invoices were eligible for a discount and of those eligible for a discount [REDACTED] applied the discount to the payment made.

#### 7.5.4 Rebates

Vaagen Bros. stated that it does not provide rebates to any of its customers.

#### 7.6 Verification of domestic sales to the Vaagen Bros. accounts

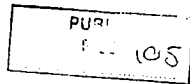
As noted above, Vaagen Bros. explained that its accounting systems do not differentiate between export and domestic sales. Vaagen Bros. demonstrated how the total sales value of its domestic and export sales of timber in the investigation period, as shown in the spreadsheets provided in its response to the exporter questionnaire, could be linked to its general ledger, extracts of the general ledger are at **confidential attachment DOM 2**. Vaagen Bros. also provided a detailed general ledger statement which calculated the actual exchange rate over the investigation period, the difference between the estimated and actual exchanges rates amounted to [REDACTED], the detail ledger statement is at **confidential attachment DOM 3**. The value of the total sales reported in Vaagen's response to the exporter questionnaire together with the exchange rate gain was consistent (noting a minor discrepancy of [REDACTED]) with the summarised net balance of [REDACTED] reported in the general ledger for the investigation period.

For the previous financial year (January to December 2010) Vaagen Bros. was also able to demonstrate how the sales value, as shown in the turnover spreadsheet (at the visit an error was identified in the turnover spreadsheet, Vaagen Bros. provided a revised turnover sheet at **confidential attachment DOM 4**) provided in its response to the exporter questionnaire, could be linked to its general ledger and how this (with a minor discrepancy) was tied to its audit accounts for that year. This reconciliation is at **confidential attachment DOM 5**. Audited accounts are at **confidential attachment GEN 2**.

Vaagen Bros. explained that its general ledger accounts and audit statements report values, not quantities. Utilising its LIMS lumber tracking system, Vaagen Bros. provided a production report reconciling volumes for all timber by-products listed turnover spreadsheet in its exporter questionnaire response for the previous 2010 financial year, production report is at **confidential attachment DOM 6**. Vaagen Bros. advised that timber product volumes are tracked by Lumber Track. Vaagen

## PUBLIC RECORD

### Exporter Visit Report – Vaagen Bros. Lumber, Inc.



Bros. provided a sales report from Lumber Track reconciling the lumber volumes as stated in the Turnover spreadsheet in its exporter questionnaire response, for the investigation period, this Lumber Track sales report is available at **confidential attachment DOM 7**.

We therefore consider the 2010-2011 domestic and export sales data submitted by Vaagen Bros., is reasonably complete and relevant.

#### 7.7 Verification of domestic sales to source documents

Prior to the visit we sent Vaagen Bros. a list of 12 selected domestic sales that we had chosen for closer examination, and we asked for copies of source documents to support the transactions and any costs related to the transactions. In relation to each of the selected transactions, Vaagen Bros. provided copies of the sales acknowledgement, bill of lading (for inland freight), sales invoice, where applicable inland freight invoices and evidence of payment.

We found that data contained in the domestic sales spreadsheet generally agreed with the source documents provided. We paid particular attention to quantities, prices, dates, delivery and payment terms, and inland freight amounts. Copies of the source documents for the 12 selected domestic sales are at **confidential attachment DOM 8**.

Customs and Border Protection noted that for five of the selected domestic sales payment was made more than 10 days after the date of issue, however the discount for paying within 10 days was still applied to these invoices. For one selected sale the payment was made after 10 days, and payment was for the full amount, that is without discount, however the domestic sales spreadsheet, recorded the sale as having applied the discount. As noted above the Vaagen Bros. provided a reconciliation showing actual payment (confidential attachment DOM 1), Customs and Border Protection noted that the selected invoices and evidence of payment accurately reflected the amounts shown in this reconciliation. Customs and Border Protection compared the overall actual payments and overall estimated payments as recorded in the domestic sales spreadsheet and noted that these amounts only differed by [REDACTED] (USD) or a variance of [REDACTED]% of the total amount paid. Customs and Border Protection considers this difference is insignificant and that the domestic sales spreadsheet reasonably reflects the invoice amount paid for the goods.

Vaagen Bros. explained that it is lenient towards to its customers in relation to applying the discount outside the 10 day discount period, in order to preserve its longevity of its customers business. Customs and Border Protection conducted an analysis of the selected domestic sales and found that the discounts and actual payment received as stated on the invoices and evidence of payment accurately reflected the amounts recorded in the revised domestic sales spreadsheet.

We asked Vaagen Bros. how the domestic inland freight amounts were calculated. Vaagen Bros. explained that domestic inland freight was allocated to each invoice based on the quoted freight at the time of negotiating the sale. The freight included

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## Exporter Visit Report – Vaagen Bros. Lumber, Inc.

in the domestic sales spreadsheet is the estimated freight cost. Upon request Vaagen Bros. provided a reconciliation of actual freight costs, the difference between estimated and actual domestic freight costs was [REDACTED] or a [REDACTED] variance on actual domestic freight costs (confidential attachment DOM 1). Customs and Border Protection requested freight invoices for three selected domestic sales, the amounts stated in these invoices reconciled to the actual freight amount recorded in the reconciliation. Customs and Border Protection noted the minor variation in estimated freight costs as recorded in the domestic sales spreadsheet, however considers these costs reasonably reflect the domestic freight costs.

## 7.8 Arms length

In respect of Vaagen Bros. domestic sales of timber 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.

We have noted the two small employee sales of insignificant quantities, and consider that it does not change the above statement.

We therefore consider domestic sales of timber are arms length transactions.

## 7.9 Ordinary course of trade

### 7.10 Suitability of sales – profitable sales

For those domestic sales for cross sections 2X4 and 2X6; and strength ratings 2100F; 2250; 2400 and 2850 (volume if sales being 20,099 MBF) we compared the sales prices to the cost to make and sell month by month:

[REDACTED]

[REDACTED]

We concluded that the volumes of Vaagen Bros. domestic sales of selected timber over the investigation period that were found to be sold in arms length transactions; and at prices paid in the ordinary course of trade, were [REDACTED]

These volumes are greater than the total Vaagen Bros. export sales volume to Australia in investigation period of structural timber of [REDACTED]

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**Exporter Visit Report – Vaagen Bros. Lumber, Inc.**

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**7.11 Domestic sales conclusion**

We found a sufficient volume of timber sales in the domestic market that were arms length transactions and sold at prices that were in the ordinary course of trade. The price paid for the goods in those domestic sales was established satisfactorily.

Based on the information provided by Vaagen Bros., and the verification processes conducted on site, these prices in respect of Vaagen's domestic sales of the selected timber identified in the table at section 7.1 of this report are a potential source to determine normal values under s. 269TAC(1) of the Act.

Detailed and summary data for domestic prices of the selected timber are contained in **confidential appendix 3**.

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**Exporter Visit Report – Vaagen Bros. Lumber, Inc.**

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FILE 102

**8 THIRD COUNTRY SALES**

In its exporter questionnaire response, Vaagen Bros. stated that it does not export any goods to other countries except Australia. At the verification meeting Vaagen Bros. qualified this statement noting that it may sell to some Canadian customers however these sales are for identical timber products as sold on the USA domestic market.

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Exporter Visit Report – Vaagen Bros. Lumber, Inc.

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FILE 101

### 9 ADJUSTMENTS

In working out a normal values based on the selected ex mill sales prices an adjustment has been made for credit terms. We added the cost of 120 days credit to the ex mill sales price to get a credit inclusive price that was sold on equal terms to the export sales to Australia. The interest rate used was 4.76% in the first half of the IP (see note 6 to the audited financial statement); and 4.75% in the second half (see **confidential attachment ADJ 1**).

At 6.2.4 we discussed additional drying/surfacing/packaging costs associated with the exported goods. The difference has been quantified at \$20/mbf. If this is taken to be a reasonable measure of the difference in specification between the domestic and export then an upward adjustment to normal value may be required. We have made such an adjustment.

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Exporter Visit Report – Vaagen Bros. Lumber, Inc.

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FILE 100

**10 NORMAL VALUE**

Normal value has been worked out two ways:

1. Using the selected domestic sales of timber by Vaagen Bros. that were arms length transactions and at prices in the ordinary course of trade (see also section 7.10).

If these sales were used it would be under s. 269TAC(1) of the Act. An upward adjustment was made for credit terms. Also, an adjustment was made for a specification difference [REDACTED] [amount of the specification adjustment before and after gross margin added]

Sales prices used were ex mill and no adjustments were required for freight and stuffing etc.

2. Using cost to make and sell: It has been explained how Vaagen Bros. records only a single COP for timber. It does not record production cost differences between characteristics such as strength rating or cross section.

Using the verified CTMS a profit was added. This profit was taken from *all* domestic sales of lumber for the same species used in sales to Australia; and for the surfaced 4 side finishes only (ie not just the selected ratings in method 1). Downgrade sales were excluded. Also excluded were all unprofitable sales which amounted to 38% of total sales.

- profit so calculated was [REDACTED] on CTMS
- an adjustment was made for credit terms to make it equivalent to [REDACTED] days

Normal value calculations, and summary normal values, are contained in **confidential appendix 4.**

## PUBLIC RECORD

Exporter Visit Report – Vaagen Bros. Lumber, Inc.

**11 DUMPING MARGIN – PRELIMINARY ASSESSMENT**

We compared the weighted average of export prices over the whole of the investigation period with the weighted average of corresponding normal values over the whole of that period, in accordance with s. 269TACB(2)(a) of the Act.

The weighted average product margin, for structural timber exported to Australia by Vaagen Bros. during the investigation period, based on sales prices was negative 9%.

When normal value based on costs has been used, the weighted average product margin is negative 5%.

These calculations are at confidential appendix 5.

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Exporter Visit Report – Vaagen Bros. Lumber, Inc.

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**12 GENERAL COMMENTS**

Vaagen Bros. provided Customs and Border Protection with a written statement (**confidential attachment GEN 8**) that outlined some of its competitive advantages of its production processes, including;

- The lumber Vaagen Bros. sources is from the Northwest inland USA, unlike coastal timber species, inland timber from this region is very slow growing and has tight grain in both the heart wood (centre of the log) and sap wood, and this heart and sap wood is able to be used in manufacturing of structural timber;
- Vaagen Bros. have manufactured timber from small logs for over 20 years, and deformation problems that may experience have been solved;
- Small logs produce timber which is flat, straight and strong, the combination of log qualities, availability of long lengths and the manufacturing practices make this a preferred product in wall frame and truss manufacturing;
- Vaagen Bros. stated that its practices of careful sorting and quality controls, result in lumber recovery that is high and cost to product is low; and
- The current pricing, attention to transportation costs, favourable exchange rate, and stable prices in Australia has provided an opportunity to expand Vaagen Bros. products into the Australia market that like the USA uses timber as a primary building material.

This statement also included some general comments outlining factors other than imports that Vaagen Bros. believes is causing injury to the Australian producers of structural timber;

- The sudden slow down of home construction seems to be the single most damaging factor to the Australian timber producers;
- The weak US economy and European monetary difficulties combined with the strong Australian dollar appears to be having a detrimental effect on the entire Australian economy not just the timber industry; and
- Because of the overall strength of monetary policies of Australian banks and general health of the Australian economy, the injury to the Australian industry is probably short term.

Vaagen Bros. also provided a statement it has made to its customers, outlining its position in respect of the structural timber investigation which is at **non-confidential attachment GEN 9**.

## PUBLIC RECORD

Exporter Visit Report – Vaagen Bros. Lumber, Inc.

**13 LIST OF APPENDICES AND ATTACHMENTS****Appendices**

Confidential appendix 1	Export price calculations and summary
Confidential appendix 2	Costs to make and sell
Confidential appendix 3	Domestic sales summary
Confidential appendix 4	Normal value calculations and summary
Confidential appendix 5	Dumping margin calculations

**General**

Non-confidential attachment GEN 1	Diagrammatic presentation of timber production process
Confidential attachment GEN 2	Diagrammatic presentation of timber cutting patterns
Confidential attachment GEN 3	Vaagen Bros. audited financial statements for 2009 & 2010
Non-confidential attachment GEN 4	Softwood Lumber Agreement
Non-Confidential attachment GEN 5	Table of conversions from nominal MBF to meters cubed and the published 'The Measurement of Roundwood, Methodologies and Conversion Ratios'
Confidential attachment GEN 6	Example conversion calculations, from nominal MBF to meters cubed
Confidential attachment GEN 7	Information regarding MGP Australian standard and MSR USA standard strength grading for timber
Confidential attachment GEN 8	Explanation of competitive advantages of Vaagen Bros. production of timber
Non-confidential attachment GEN 9	Vaagen Bros. statement to customers regarding the structural timber investigation

**Export sales**

Confidential attachment EXP 1	SOH-SIT example inventory lists
Confidential attachment EXP 2	Emails evidencing price negotiations with Moxon
Confidential attachment EXP 3	Exchange rate hedging policy
Confidential attachment EXP 4	Revised export sales spreadsheet
Confidential attachment EXP 5	Supporting documents for 2 sample shipments as part of the exporter questionnaire response
Confidential attachment EXP 6	Supporting documents for the 12 selected shipments of structural timber
Confidential attachment EXP 7	Vaagen Bros. financial report - 'A/R Payments/ Deposits Listing'
Confidential attachment EXP 8	Vaagen Bros. financial report detailing exchange rates applied to each deposit by Moxon
Confidential attachment EXP 9	Vaagen Bros. rail freight cost calculation
Confidential attachment EXP 10	Vaagen Bros. report detailing all rail freight for export goods to the reload inventory yard over the investigation period
Confidential attachment EXP 11	Selection of rail freight invoices
Confidential attachment EXP 12	Stuffing & dryage cost reconciliation

## PUBLIC RECORD

## Exporter Visit Report – Vaagen Bros. Lumber, Inc.

Confidential attachment EXP 13

SOH-SIT inventory list, dated 18 November 2011

**Costs to make and sell**

Confidential attachment CTMS 1

Overview of accounts structure

Confidential attachment CTMS 2

Market versus cost calculation for inventory for July 2010

Confidential attachment CTMS 3

Adjustment for market versus cost calculation for inventory July 2010 worksheet

Confidential attachment CTMS 4

Cost information for each month of the investigation period

Confidential attachment CTMS 5

Balance sheet, statement of operations and cost flow sheets for each month of the investigation period

Confidential attachment CTMS 6

Process cost statement for the year ending December 2010

Confidential attachment CTMS 6a

Detailed income statement

Confidential attachment CTMS 6b

Detailed trial balance sheet

Confidential attachment CTMS 7

Financial statements December 31, 2010

Confidential attachment CTMS 8

Load summary report

Confidential attachment CTMS 9

Details of adjusting entry for process costs

Confidential attachment CTMS 10

Financial statements July 31, 2010

Confidential attachment CTMS 11

Load summary report

Confidential attachment CTMS 12

Lumber track report – stacker production

Confidential attachment CTMS 13

Lumber purchase contract

Confidential attachment CTMS 14

Load summary report

Confidential attachment CTMS 15

Cost allocation and treatment of by-products statement

Confidential attachment CTMS 16

Explanation of why there are no additional costs for different timber grades

Confidential attachment CTMS 17

Exchange rate and adjustment expenses statement

**Domestic sales**

Confidential attachment DOM 1

Reconciliation of domestic invoice payments

Confidential attachment DOM 2

Extract from general ledger

Confidential attachment DOM 3

Detailed general ledger – evidencing actual exchange rates

Confidential attachment DOM 4

Revised sales turnover spreadsheet

Confidential attachment DOM 5

Reconciliation of general ledger to audited accounts includes general ledger summary

Confidential attachment DOM 6

By-products production report

Confidential attachment DOM 7

Lumber sales report – timber products

Confidential attachment DOM 8

Supporting documents for the 12 selected domestic sales

**Adjustments**

Confidential attachment ADJ 1

Evidence of Interest Rate

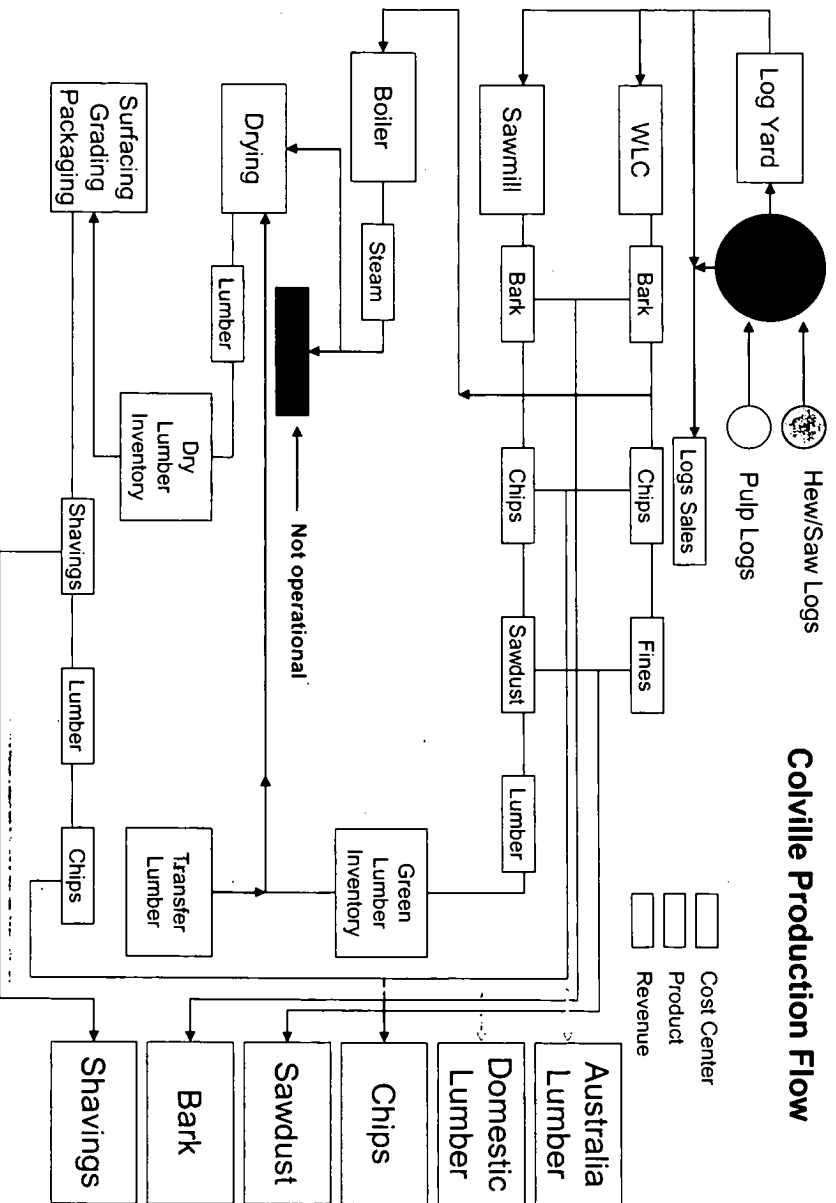
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**Exporter Visit Report – Vaagen Bros. Lumber, Inc.**

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FILE 95

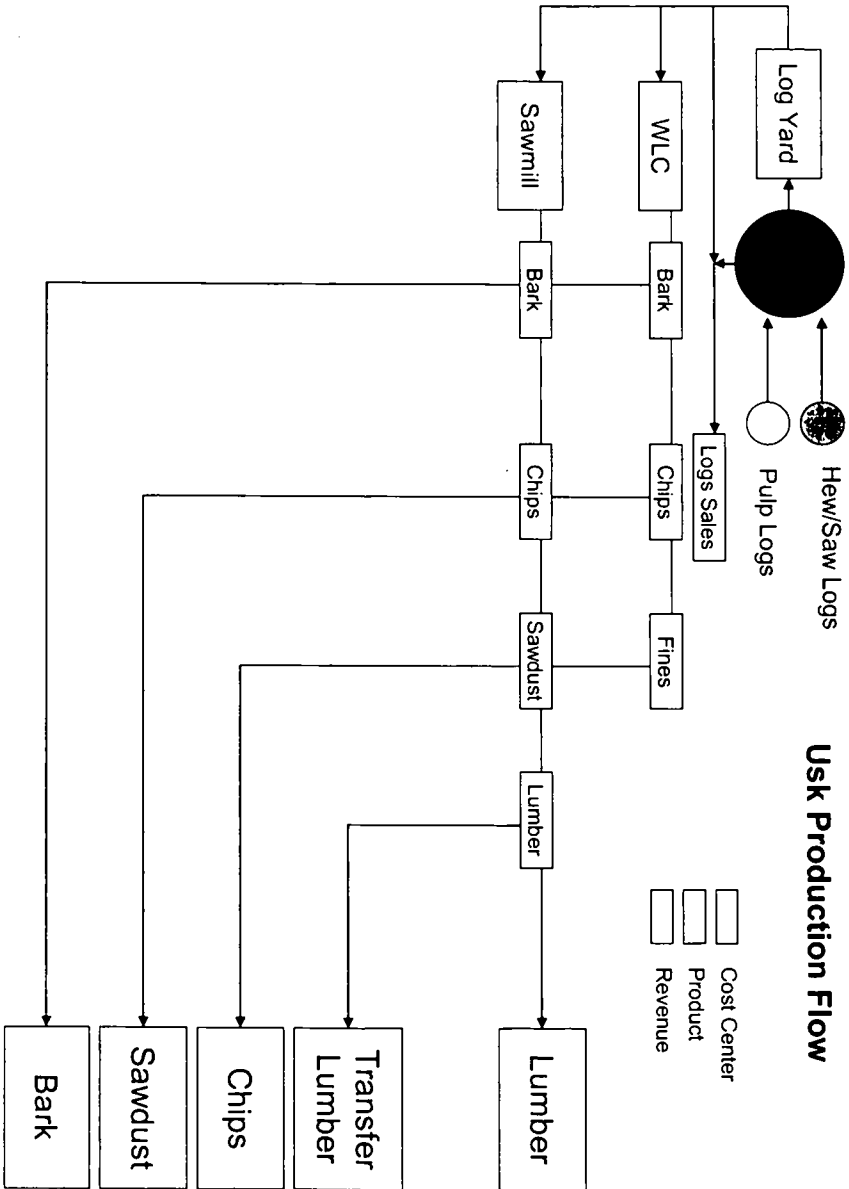
DO NOT CONFIDENTIAL ATTACHMENT GEN-1

# Colville Production Flow



Cost Center  
Product  
Revenue

# Usk Production Flow



Non-confidential attachment 4

Softwood Lumber Agreement  
between the Government of Canada  
and  
the Government of the United States of America

Due to the volume of the attachment, this attachment is only available online  
at the following address

[http://www.international.gc.ca/controls-controles/softwood-bois\\_oeuvre/other-autres/agreement-accord.aspx?view=d](http://www.international.gc.ca/controls-controles/softwood-bois_oeuvre/other-autres/agreement-accord.aspx?view=d)

Nominal MBF to M3 Conversion

2X4			
	Nominal MBF	Actual MBF	Actual M3
Thick (in)	2.00	1.50	Thick (M) 0.038
Width (in)	4.00	3.50	Width (M) 0.089
Length (ft)	1.00	1.00	Length (M) 0.3048
MBF	0.000667	0.000438	M3 0.00103
			1.549

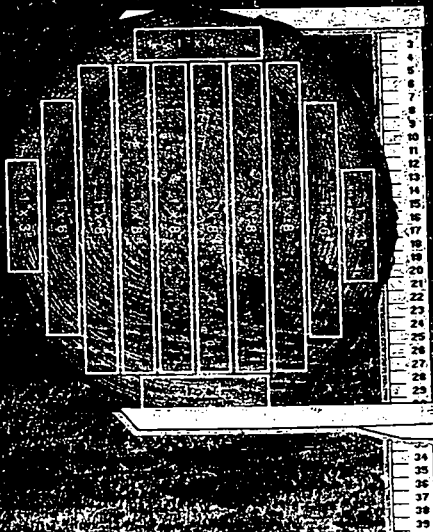
2X6			
	Nominal MBF	Actual MBF	Actual M3
Thick (in)	2.00	1.50	Thick (M) 0.038
Width (in)	6.00	5.50	Width (M) 0.140
Length (ft)	1.00	1.00	Length (M) 0.3048
MBF	0.001000	0.000688	M3 0.00162
			1.622

2X8			
	Nominal MBF	Actual MBF	Actual M3
Thick (in)	2.00	1.50	Thick (M) 0.038
Width (in)	8.00	7.25	Width (M) 0.184
Length (ft)	1.00	1.00	Length (M) 0.3048
MBF	0.00133	0.00091	M3 0.00214
			1.604

90X35			
	Nominal MBF	Actual MBF	Actual M3
Thick (in)	1.84	1.38	Thick (M) 0.035
Width (in)	4.05	3.54	Width (M) 0.090
Length (ft)	1.00	1.00	Length (M) 0.3048
MBF	0.00062	0.00041	M3 0.00096
			1.549

90X45			
	Nominal MBF	Actual MBF	Actual M3
Thick (in)	2.36	1.77	Thick (M) 0.045
Width (in)	4.05	3.54	Width (M) 0.090
Length (ft)	1.00	1.00	Length (M) 0.3048
MBF	0.00080	0.00052	M3 0.00123
			1.549

# THE MEASUREMENT OF ROUNDWOOD METHODOLOGIES AND CONVERSION RATIOS



M.A. Fonseca

CABI Publishing  


Table 6.8. Dimension mill, lumber and residual product recovery by small-end diameter of cubically scaled logs.

SED inches	cm	USFS National CF		BC Firmwood		Sawdust (%)	Green		Planer	Dry
		bft/ft <sup>3</sup>	Lumber recovery %	bft/ft <sup>3</sup>	Lumber recovery %		chips (%)	Shrinkage (%)		chips (%)
5	13	6.7	36.4	216	33.4	5.6	50.1	2.0	6.3	2.5
6	15	8.1	44.2	262	40.6	6.9	39.4	2.4	7.6	3.1
7	18	8.9	50.5	290	46.4	7.1	32.1	2.7	8.0	3.5
8	20	8.9	50.8	293	47.1	7.0	31.2	2.8	8.2	3.6
9	23	9.0	51.1	296	47.5	6.9	30.5	2.8	8.7	3.6
10	25	9.0	51.1	296	47.5	6.8	30.5	2.8	8.9	3.6
11	28	9.3	53.2	305	49.5	6.9	29.3	2.9	8.7	3.7
12	30	9.5	54.6	317	51.6	7.1	25.3	3.0	8.9	3.9
13	33	9.5	55.0	317	52.0	7.0	25.5	3.0	8.6	3.9
14	36	9.5	55.4	317	52.3	6.9	25.5	3.0	8.3	4.0
15	38	9.5	55.4	317	52.3	6.9	25.5	3.0	8.3	4.0
16	41	9.5	55.4	324	53.4	7.0	23.9	3.1	8.5	4.0
17	43	10.0	58.1	340	56.1	7.4	20.1	3.3	8.9	4.2
18	48	10.0	58.1	340	56.1	7.4	20.1	3.3	8.9	4.2
19	48	10.0	58.1	340	56.1	7.6	20.1	3.3	8.9	4.2
20	51	10.3	59.8	350	57.7	7.6	17.9	3.4	9.1	4.4
21	53	10.5	60.9	356	58.8	7.7	16.3	3.4	9.3	4.5
22	56	10.9	63.7	372	61.4	8.1	12.5	3.6	9.7	4.7
23	58	10.9	63.7	372	61.4	8.3	10.3	3.6	9.7	4.7
24	61	11.2	65.3	382	63.0	8.3	10.3	3.7	10.0	4.8
25	64	11.0	64.2	376	62.0	8.2	11.8	3.6	9.8	4.7
26	66	10.8	63.1	369	60.9	8.0	10.3	3.5	9.6	4.6
27	69	10.6	62.0	363	59.8	7.9	14.8	3.5	9.5	4.5
28	71	10.5	60.9	356	58.8	7.7	16.3	3.4	9.3	4.5
29	74	10.3	59.8	350	57.7	7.6	17.9	3.4	9.1	4.4
30	76	10.1	58.7	343	56.6	7.4	19.4	3.3	9.0	4.3



21 November 2011

Vaagen Bros. Lumber Inc. welcomes the opportunity provided by the joint Hyne and Sons Pty Ltd, Carter Holt, and Gunns Ltd application for an anti-dumping investigation into the trade in Imported Softwood into Australia.

Vaagen Bros. Lumber participates only in markets that return the highest value for our products. We have worked tirelessly for several years with Moxon and Company Pty Ltd to import a product that is recognized as the highest quality product in its segment of the Australian timber market; a product that will command a premium price for its quality and usefulness. We believe that a strong and viable timber manufacturing industry in Australia is to our advantage as it will result in higher quality products for Australian consumers and builders, and fair pricing for Australian products. This will result in continued use of timber as a sustainable, green building material and will contribute to the health of our forests. We will continue to challenge Australian producers to higher quality standards and lower cost manufacturing practices as this is the dynamic that makes our industry as a whole stronger and more resilient. Vaagen is thankful for the trade laws that allow us participation in the Australian market and we look forward to many years of supplying the highest quality products at a fair price.

Vaagen Bros. Lumber Inc. has been owned and operated by the Vaagen family since 1952. We employ 200 employees in three sawmills in northeast Washington State, USA and British Columbia, Canada.