



**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**

**EGGER SÄGEWERK BRILON GMBH**

**November 2011**

THIS REPORT, AND THE VIEWS AND RECOMMENDATIONS CONTAINED  
IN IT, ARE SUBJECT ALWAYS TO REVIEW BY THE CASE MANAGEMENT  
TEAM AND MAY NOT REFLECT THE FINAL POSITION OF CUSTOMS AND  
BORDER PROTECTION

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**1 BACKGROUND****1.1 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* newspaper 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, Egger Sägewerk Brilon GmbH (**Egger**), were identified as an exporter of certain structural timber from Germany. Customs and Border Protection wrote to Egger seeking its cooperation with the investigation and forwarded to it an exporter questionnaire.

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

Egger's response to the exporter questionnaire was assessed and found to be sufficient to warrant a verification visit. Subsequently, Customs and Border Protection undertook a verification visit at Egger's sawmill and business premises at Brilon, Germany.

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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.

This report details the discussion and verification undertaken during this meeting with Egger's representatives, and makes recommendations for relevant determinations regarding Egger within this investigation.

## 1.2 Purpose of visit

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

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 Egger; 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 Attorney-General; and
- 11 February 2011, when Customs and Border Protection's Final Report and recommendations are due to the Attorney-General.

We informed Egger 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 Attorney-General.

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

- prepare a report of the visit (**this report**);
- provide Egger 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 Egger during the verification meetings would be treated as confidential unless we were advised otherwise.

### 1.3 Meeting – dates and attendees

The verification meetings took place at:

Egger Sägewerk Brilon GmbH

**Address:** Im Kissen 20, 59930 Brilon, Germany

**Phone number:** +49 2961 770 23120

The following were present at various stages of the interview:

<b>Dates</b>	14, 15, 16 & 18 November 2011
<b>Egger</b>	<i>Egger Building Products Division</i> Andreas Reiterer, Director Sales/Marketing EBP Martin Rottensteiner, Head of Finance EBP [REDACTED] [REDACTED]
<b>Consultants</b>	<i>Heuking Kuhn Luer Wojtek, Attorneys</i> Simon Hirsbrunner, Lawyer <i>Minter Ellison Lawyers</i> John Cosgrave, Lawyer (by telephone)
<b>Customs and Border Protection</b>	<i>International Trade Remedies Branch</i> Arthur Vlahonasios, Manager, Operations 2 Lydia Cooke, Manager, Operations 1

#### 1.4 Cooperation and preliminary issues

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

We advised Egger 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 PAD and collect securities on future imports of product from Egger;
- if the delegate is satisfied that Egger 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 Egger; 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.

#### 1.5 Company details

Egger set out its company details in its non-confidential submission. To commence our meeting, Egger provided us with an overview of the company and the Egger group of companies. Extracts of the presentation were reproduced in the following company brochures:

- *Plant Facts Brilon* (**non-confidential attachment GEN1**);
- *Creating more from wood – Egger sawmill in Brilon* (**non-confidential attachment GEN2**); and
- *In the heart of Europe – Egger sawmill in Brilon* (**non-confidential attachment GEN3**).

The Egger group of companies was established in 1959, with the development of its first sawmill in St Johann in Tirol Austria. The Brilon sawmill was commissioned in 2008. The Egger group of companies remain privately and family owned.

In its submission, Egger explained that it is a wholly owned subsidiary [REDACTED]. The company provided a complete diagram of its corporate structure in the confidential version of its

response to the exporter questionnaire. Egger provided evidence of its corporate structure in its audited financial report for 2011. This copy forms confidential attachment GEN4.

Egger manufactures sawn and planed timber products. It produces these products at its sawmill in Brilon and sells them both domestically and for export to a range of countries including Australia. Egger belongs to the Egger Building Products Division which also includes the oriented strand board (OSB) plants in Wismar, Germany and Radauti, Romania.

The company provided an organisation chart of its operations and explained that its production department is separated into four divisions: log yard/sorting, sawmill, drying chambers and planing mill, which also form the profit centres within the company. A copy of the company's organisation chart forms confidential attachment GEN5.

## 1.6 Accounting

Egger's financial year is the calendar year, May to April.

The company included copies of the following documents at Section A of its submission:

- Chart of Accounts;
- Audited financial report for FY 2011 for [REDACTED];
- Consolidated interim financial statement for the Egger Group ([REDACTED]) for FY 2011 and half-year accounts as of 31 October 2010;
- Consolidated accounts for the business entities [REDACTED] and Egger for the FY 2010 & FY 2011; and
- Management accounts for Egger for FY 2010 & FY 2011.

The company noted in its submission that it maintains its book and records in accordance with the generally accepted accounting principles of Germany. Egger's accounts were audited by KPMG AG Wirtschaftsprüfungsgesellschaft.

The company uses [REDACTED] as its Enterprise Resource Planning system (ERP), and a customised system as its Online Analytical Processing tool (OLAP), namely [REDACTED].

Egger uses [REDACTED] for product costing. The company reported costs for the GUC in its confidential submission. The cost accounting



system reconciles directly with the ERP. Actual cost of manufacturing, represents the cost of sales on the financial statement.

Egger has direct and indirect cost centres. [REDACTED]  
costs incurred at each direct cost centre are recorded and charged to the individual profit centres (log yard, sawmill, drying chambers and planing mill). There is no production cost which is valued differently for cost accounting purposes than for financial accounting purposes.

## 2 GOODS UNDER CONSIDERATION AND LIKE GOODS

### 2.1 The goods exported to Australia

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.<sup>2</sup>*

Egger exported planed/dressed structural timber to Australia of various dimensions with the range of the GUC in bulk-pack sizes of approximately 1.15m<sup>3</sup> during the investigation period. In its submission, the company noted that its exports were of planed/dressed structural timber with stress grades under AS1720.1-2010 of MGP10 and MGP12 within a size range of:

Thickness (mm)	Width (mm)	Cross-sectional area (cm <sup>2</sup> )	Length range (mm)
35	70	24.5	2335 – 5100
	90	31.5	2250 – 5400
	120	42.0	3000 – 5100
	140	49.0	4500 – 5100
	170	59.5	3000 – 5100
45	190	66.5	4500 – 5100
	70	31.5	2340 – 5100
	90	40.5	2340 – 5400
	120	54.0	3300 – 5100
	140	63.0	3300 – 5100

We observed that these goods are described by Egger as 'whitewood planed timber'.

We note that Egger also exported a quantity (■ m<sup>3</sup>) of planed/dressed timber that was not graded to AS1720.1-2010 and therefore not capable of being used in structural applications in accordance with the *Building Code of Australia*.

<sup>2</sup> Australian Customs Dumping Notice No. 2011/41, *Initiation of an investigation into alleged dumping: Certain Structural Timber exported from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA*, 9 September 2011.

Therefore, exports of this non-graded structural timber are not considered to be the GUC and have not been included in our dumping analysis.

## 2.2 Like goods

### 2.2.1 Background

Egger noted in its submission that it sells its planed/dressed timber in the following dimensions to domestic customers in Germany:

Thickness (mm)	Width (mm)	Cross-sectional area (cm <sup>2</sup> )	Length range (mm)

The sales are packaged in the same bulk-packs as the GUC. It was further noted by Egger that the planed/dressed structural timber sold domestically was capable of being used in structural applications, and was graded to the German Standard (DIN 4074-1), S10, which corresponded with the European Standard (DIN EN 912), C24.

The company explained that there were no differences in production costs for Egger's planed/dressed structural timber product whether sold domestically or for export.

We note that Egger also sold a quantity (■ m<sup>3</sup>) of planed/dressed timber that was not graded to DIN 4074-1, S10. We asked the company why this timber did not constitute 'like goods'. The company explained that this planed/dressed timber was not stress graded under DIN 4074-1 to S10 and therefore the company made no warranties as to its fitness for structural applications.

We obtained a sales summary (by gross value and volume) of product codes for all timber produced at Egger's Brilon sawmill during the investigation period. This report forms **confidential attachment GEN6**. After reviewing the product code list, we considered if any other domestically sold timber should be included as 'like goods' in the dumping analysis. We discussed with Egger the physical characteristics, end use and other factors impacting on the assessment of like goods for each of the other timber products included in the product code list. A summary of our analysis following that discussion forms **confidential attachment GEN6A**.

### 2.2.2 Log species

Egger noted it sources logs predominately of the spruce (*picea abies*) species, and occasionally varieties of redwood.

### 2.2.3 Production process

A general outline of Egger's timber production facility (as a diagram) was provided in the exporter questionnaire responses (as **Appendix G.1**). We inspected the production and warehousing facilities at Brilon and found that Egger's general timber production process may be summarised as below:

1. Log receipts – logs are received into the yard and sorted in terms of their length;
2. Sorting/Debarking – the logs are then mechanically sorted in terms of their length and debarked before they are measured by a 3-D measuring system which determines their optimal cut length (between 3.00 and 5.40 metres), and optimal diameter. The debarked logs, sorted by lengths, are then dropped into boxes for further processing;
3. Sawmill – when the company's production planning system determines that logs of a particular length and diameter are to be sawn, they are deposited into a sorting line that mechanically grades the logs and arranges them for an optimal centre-cut pattern. The logs are sawn as follows:
  - a. firstly the side wood is removed; and
  - b. the remaining log is then centre-cut from which the straight lengths of timber are produced.
4. [REDACTED];
5. Visual grading – the timber is first visually graded before being pallet packed, either for sale as unseasoned timber or for further processing via the kiln drying chamber and planing mill. The packs are then marked in terms of their product description and in the event of export, their export market;
6. Kiln drying – for timber to be kiln dried, it is transported into the drying chamber. The process of kiln drying takes 4 – 6 days;
7. Testing/Mechanical grading – the kiln dried timber is then loaded on to a further line, which performs a number of mechanical and other tests:
  - a. firstly the moisture content of the timber is tested; and
  - b. an ultrasound testing mechanism is then capable of conducting a mechanical grading of the timber, testing for its *modulus of elasticity* and *modulus of rigidity*;
8. Planing – timber required to be planed then enters the planing mill. It also undergoes an x-ray for metal fragment detection;

9. Visual grading – the timber is then visually graded according to a number of grading sheets specific to the grade to be attributed to the timber. The timber is then also positioned so that it can be end-trimmed to size specifications;

10. Packing – the timber is held in holding racks prior to being pallet packed and plastic wrapped.

The typical by-products generated from sawmilling are bark, log trim-offs, woodchips, sawdust, shavings and timber trim-offs.

## 2.2.4 Comparison of domestic and export models

The company submitted that the most appropriate method of comparing domestically sold planed/dressed structural timber with the GUC was to match respective products by their quality or stress grading, irrespective of the dimensions, lengths and cross-sectional area. We observed that there was no direct match between the dimensions, cross-sectional areas and lengths of the structural timber sold into the German domestic market and that exported to Australia. The company asserted that unit price was not affected by the dimensions, length or cross-sectional area of the timber product. Therefore, the company submitted that it was not necessary to match the product codes of domestically sold goods and goods exported to Australia precisely. To test the reasonableness of this approach we compared the unit prices of different dimensions and cross-sections of timber sold to individual German domestic and Australian export customers in the same period. The following table illustrates the results of our analysis:

[confidential]

We found that prices for individual customers within a period were not affected by the dimensions or length of the timber:

### Planed timber (Material group [REDACTED])

The company submitted that it only considered sales of planed/dressed timber graded to DIN 4074-1, S10, sold on the German domestic market as like goods to the goods exported to Australia. The company explained that this was due to the following reasons:

- The same species of timber (*picea abies*) is used to produce the German domestic product and that exported to Australia;
- Both products undergo the same production process;
- Both products are rated to structural end-uses.

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Certain structural timber from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

In terms of the differences between the goods sold into the German domestic market and those exported to Australia, the company acknowledged the following:

- the two products are graded to different standards;
- whereas the Australian standard requires the timber undergo mechanical grading, the German standard only requires visual grading; and
- the domestically sold timber has a higher moisture content (■■■■) than the timber exported to Australia (■■■■).

To verify the company's claims that both the domestic and exported goods are rated to structural end-uses, we reviewed a copy of the German standard (DIN 4074-1) (**confidential attachment GEN7**), and the translation of the German standard to the European standard (DIN EN 912) (**confidential attachment GEN8**). As the German standard rates timber according to its physical characteristics, we requested, and were provided with, a copy of the visual grading sheets used by Egger to grade timber to the DIN 4074-1, S10 standard (**confidential attachment GEN9**). To identify the physical differences and similarities between the timber exported to Australia and that graded to the German standard, we requested, and received, copies of the visual grading sheets for timber graded to MGP10 and MGP12 (**confidential attachment GEN10**).

## 2.2.5 Grading timber for structural end-use

The company explained that structural timber intended for export to Australia was graded according to AS1720.1-2010 and rated to either MGP10 or MGP12. To verify that the company's grading systems complied with AS1720.1-2010, it provided us with a copy of its confirmation of certification issued by its quality assurance auditor (**confidential attachment GEN11**). Structural timber intended for sale into the German domestic market was graded according to DIN 4074-1 and rated to S10.

A comparison of the requirements of AS1720.1-2010 and DIN 4074-1 in relation to the modulus of elasticity values follows:

	AS1720.1-2010	DIN 4074-1
Testing method	Mechanical	Visual
Stress grade for average modulus of elasticity value (MPa)		
9,000	N/A	S7
10,000	MGP10	N/A

11,000	N/A	S10
12,700	MGP12	N/A

The company explained that a S10 grade under DIN 4074-1 meets, and exceeds a MGP10 stress grade under AS1720.1-2010. However, a S10 grade was not equivalent to a MGP12 stress grade. Therefore, although not mechanically tested, structural timber rated to a S10 grade could be certified to a structural stress rating.

Notwithstanding that structural timber intended for export to Australia is mechanically rated, it still undergoes a visual grading, which may result in the MGP grading being overridden. To determine the extent to which the visual grading of the structural timber differs between the two markets, a summary of the visual grading sheets follows:

[confidential]

The company explained that [REDACTED]

. This

was because [REDACTED]

Therefore, any timber that had been [REDACTED]

. In this case the company explained that some timber [REDACTED]

. This was done in order to [REDACTED]

[REDACTED] [explanation of confidential timber grading practice]

Unseasoned timber (material group [REDACTED])

This category of goods was centre-cut timber that was not kiln dried and not planed. We asked the company to explain why it did not consider unseasoned timber to be like goods to the timber exported to Australia. The company explained that [REDACTED]

[REDACTED] [confidential grading practice]. Unseasoned timber

was usually sold to industrial customers who further processed it and graded it for their own end-use. The company asserted that unseasoned timber was physically different to the planed/dressed timber exported to Australia, having undergone two further substantial processes, namely kiln-drying and planing.

We noted that there were no sales of unseasoned timber exported to Australia in the investigation period.

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Kiln dried timber (material group [REDACTED])

This category of timber products was centre-cut timber that had been kiln dried, but not planed. [REDACTED]

[confidential certification details]. Again this timber product was sold to industrial customers who further processed it and graded it for their own end-use.

The company asserted that kiln dried timber was physically different to the planed/dressed timber exported to Australia, having undergone a further substantial process, namely planing.

## 2.2.6 Like goods – preliminary assessment

Although not alike in all respects, the planed/dressed timber sold on the German domestic market has characteristics closely resembling those exported to Australia and graded to the MGP10 rating in terms of s.269T(1) of the Act. We did not consider unseasoned and kiln dried timber as having characteristics closely resembling the GUC. In making this assessment we had regard to the following considerations:

### Physical likeness

The planed/dressed timber sold on the domestic market and the GUC are the same species of wood, have dimensions, cross-sectional areas and lengths that are generally in the same range. The planed/dressed timber sold on the domestic market is graded to a standard that at least meets and exceeds the GUC that is graded to the MGP10 rating (11,000 MPa). We did not find that the planed timber sold on the domestic market meets the standard required by the GUC that is graded to the MGP12 rating. Notwithstanding the physical grading given to the planed/dressed timber sold on the domestic market and the GUC, we were satisfied on the strength of the visual grading sheets that the appearance of the two products was also sufficiently similar.

On the other hand, unseasoned timber and kiln dried timber sold on the domestic market were physically different to the GUC, in terms of appearance, standards, grade and strength.

### Commercial likeness

The following table summarises our findings in relation to the market sectors into which the three types of timber goods sold on the domestic market and the GUC compete:



	GUC	Domestic Mkt		
		Planed/dressed	Kiln dried	Unseasoned
Trade	✓	✓	x	x
Industrial	x	x	✓	✓

#### Functional likeness

Both the planed/dressed timber sold on the domestic market and the GUC may be put to the same end-use, namely for use in structural/construction applications. Further the "quality" characteristics, determined by reference to the visual grading sheets between the two products are sufficiently similar, such that on average, it is not apparent that the product sold on the domestic market would have visually discernable differences.

The kiln dried and unseasoned timber is further processed for use in possible structural/construction application.

#### Production likeness

The following table identifies a summary of the similarities and differences between the goods sold domestically and the GUC:

	Raw material	Sorting	Saw mill	Kiln	Planing mill
GUC	Whitewood	✓	✓	✓	✓
Unseasoned	Whitewood	✓	✓		
Kiln dried	Whitewood	✓	✓	✓	
Planed	Whitewood	✓	✓	✓	✓

#### Overall assessment

For the purpose of dumping analysis, we consider that the structural timber described as planed/dressed and rated to a S10 grade under DIN 4074-1, and sold by Egger on the domestic market, has characteristics closely resembling the GUC graded to the MGP10 rating in terms of s. 269T(1).

**3 EXPORT PRICE****3.1 Export sales**

Egger's response to the exporter questionnaire contained details of its export sales to Australia of structural timber. During the investigation period, Egger exported structural timber in ten different width and thicknesses, across a range of stick lengths (2,250 – 5,400mm) to [REDACTED] [number] customers in Australia. Both structural timber rated to MGP10 and MGP12 grades were exported.

As noted above, exports of whitewood planed timber not graded to AS1720.1-2010 240 are not considered to be the GUC and have not been included in our dumping analysis.

The whitewood planed structural timber manufactured by Egger was sold into the Australian market via the following channels:

- sales to Australian manufacturers and distributors of structural timber:
  - [REDACTED], and
  - [REDACTED]; and
- sales to an Australian wholesaler/distributors:
  - [REDACTED]
  - [REDACTED]; and
  - [REDACTED].

Egger stated it did not have any agency, distribution or other formal agreement in relation to exports to Australia.

A summary of the volume of each grade of the GUC manufactured by Egger and sold to Australia during the investigation period is contained in the table below.

[confidential]

**3.2 Export sales process**

Egger described the circumstances of its sales of structural timber to Australia.

The export sales process is consistent across all Egger's Australian customers. The only exception applied to sales to [REDACTED] which occurred via an Australian selling agent, [REDACTED].

Egger explained that its Australian customers contacted its Asia/Pacific sales manager directly, usually by email, indicating their volume requirements for the following month. Egger then proposes a price and generates a purchase order, in the form of a contract, confirming either the original (or an adjusted) volume and price and delivery period. The purchase order also sets out the terms of sale and payment terms.

If the customer agrees with the proposed volume, price and terms of sale contained in the purchase order, the Egger sales manager responsible for the sale then enters it into the company's production planning system. The goods are then manufactured to order and are shipped with a commercial invoice.

Egger noted that it [REDACTED], and that the primary factors impacting on export prices of the GUC to Australia were:

- [REDACTED];

- [REDACTED];

- [REDACTED];

Egger explained the goods are stored on the factory floor for a short period prior to being shipped [REDACTED]. We examined stored goods on the factory floor that were described to us as destined for export to Australia. The company explained that the goods are stored in this manner until the order is produced and available for delivery to [REDACTED] by truck for dispatch. Egger engages and pays a freight forwarder to arrange domestic inland transport, loading and unloading, terminal handling charges, customs brokerage, and ocean freight charges to Australia.

In the case of all Australian customers except [REDACTED], the bill of lading shows Egger as the consignor and the customer as the consignee. In the case of [REDACTED] is the named consignee, and in the case of [REDACTED], the bill of lading showed [REDACTED] as the consignee.

The time between order and delivery is generally up to [REDACTED] days.

Sales of the GUC were invoiced by Egger to its Australian customers in [REDACTED] on a [REDACTED] ( [REDACTED] ) basis. Payment is generally [REDACTED] days from the bill of lading date. In the case of [REDACTED], payment was [REDACTED].

In the case of sales to all its Australian customers (except [REDACTED], see below), Egger advised that the invoice price is the actual price paid by the customer and that it did not pay any [REDACTED].

Sales to [REDACTED]

Egger advised that in the case of sales to [REDACTED], the invoice price is [REDACTED]. The company explained that [REDACTED].

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Certain structural timber from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

[redacted] [Terms of sale to specific customers]

### 3.3 Export sales verification

#### Approach to verification

In its submission Egger provided data on Australian sales to its [redacted] [number] customers in Australia for both MGP10 and MGP12 models for [redacted] transactions. The spreadsheet of sales included details relating to the invoice price, the terms of the sale and costs, such as inland freight, ocean freight, insurance, packing, handling and other expenses [redacted].

We advised Egger that we would use this data as a starting point for our verification. We explained our need to reconcile the data to audited financial statements, management reports and source documents and our requirement to undertake other completeness and accuracy checks to ensure we included all Egger's exports of the GUC in the calculation of the export price.

#### Verification to audited accounts

We asked Egger to demonstrate that the Australian sales data submitted in its response to the exporter questionnaire could be reconciled to its audited financial statements and internal management accounts.

Commencing with the audited statement and management accounts for the financial year ended 30 April 2011 (FY 2011), Egger agreed the company's gross turnover (€ [redacted]) in the audited statement (**confidential attachment GEN4**) to the management accounts (**confidential attachment GEN12**) via the auditor's notes to the income statement. The management accounts then separated out gross turnover into the following accounts:

- [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
  - [redacted]
- [redacted] [confidential account details]

The company then interrogated its OLAP and produced a report (**confidential attachment GEN13**) that separated out its external sales (timber) account into the three material groups relevant to that account:

- [redacted] Unseasoned timber;
- [redacted] Kiln dried timber; and
- [redacted] Planed timber.

The sales report also separated out sales by market (in terms of country, including German domestic sales). The total of all sales in the report (**confidential attachment GEN13**) (€ [REDACTED]) reconciled, generally, with the management statements (**confidential attachment GEN12**) (€ [REDACTED]), and in turn the audited accounts (**confidential attachment GEN4**).

We were able to agree the gross turnover contained in the management statements to the gross turnover reported in the company's income statement produced in its response to the exporter questionnaire (**confidential attachment A-5**).

Having become satisfied that the management statements reconciled to the audited accounts, and that the OLAP reconciles to the management statements, we asked the company to produce a sales report from its OLAP recording all sales by market for its external sales (timber) account for the investigation period (**confidential attachment GEN6**).

We were able to agree to the total sales for the investigation period recorded in the sales report extracted from the company's OLAP (**confidential attachment GEN6**) (€ [REDACTED]) to the company's income statement provided in its response to the exporter questionnaire (**confidential attachment A-5**) (€ [REDACTED]), within a margin of <0.50%. The report demonstrated that there were no sales to Australia of any timber product other sales of whitewood planed timber (material group [REDACTED]). We compared the value and volume of material group [REDACTED] sales to Australia contained in the sales report for the investigation period (**confidential attachment GEN6**) and found that it did not agree to the income statement provided in the response to the exporter questionnaire (**confidential attachment A-5**). The company explained that the difference was accounted for by some sales of non-structural whitewood planed timber, [REDACTED]. The company produced a detailed sales report of these sales in terms of their product codes and product descriptions (**confidential attachment EXP1**). The values agree with the income statement (**confidential attachment A-5**) when these sales are deducted from the total sales for material code [REDACTED] in the investigation period. Of the sales considered to be the goods, Egger then separated sales of the structural timber by product (code) type (**confidential attachment SALES 6**). The sum of the value and volume for this report agreed with the gross sales amount for the GUC in the investigation period contained in the income statement (**confidential Attachment A-5**).

We then compared the total value and volume contained in the manually compiled transaction-by-transaction list of all sales to Australia for the investigation period contained in the Australian sales spreadsheet (**Confidential Attachment B-4**), to the Income Statement (**Confidential Attachment A-5**). We were satisfied that the total sales of goods sold by Egger to its Australian customers matched the listing included at **Confidential Attachment B-4** of the exporter's submission.

We were able to reconcile the total exports to Australia in Egger's sales summary extracted from the OLAP for the investigation period with the audited financial and management statements. This ensured that no GUC were exported to Australia outside the direct trace we had followed to the management accounts. The report is at **confidential attachment GEN6**. We also obtained a sales report including all export sales of Egger's timber products to Australia. These reports form **confidential attachment EXP1 & EXP2**. We were satisfied that we had identified all exports of the GUC to Australia.

#### Verification to source documents

Egger provided sample documents for two transactions from its Australian exports in its response to the exporter questionnaire. We selected an additional twelve transactions for verification of sales during our visit, five relating to sales to [REDACTED], one to [REDACTED] and two each to [REDACTED]. For each transaction we typically obtained the following documents:

- initial correspondence;
- purchase order/contract;
- order confirmation;
- Bill of Lading;
- packing list;
- payment advice;
- payment reconciliation;
- payment confirmation
- commercial invoice;
- freight forwarding charges; and
- proof of payment of costs associated with the sale.

We examined the documents and compared the details for the product codes, model, dimensions, date of sale, shipping and payment terms, quantity, price, inland transport and freight charges, with the information that Egger had included in its export sales spreadsheet that had been provided at Confidential **Attachment B-4** of the company's submission. The information in the source documents and spreadsheets for the sales to the Australian customers matched.

We then matched the invoices to the Bill of Lading and also matched invoiced amounts with bank receipts to verify full payment of the invoiced amount. We found no discrepancies between those documents and the information at Confidential **Attachment B-4** of the submission.

Egger advised that it paid [REDACTED]. We confirmed payment of [REDACTED] by reconciling the following documents to the information at Confidential **Attachment B-4** of the submission:

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Certain structural timber from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

- [REDACTED]
- [REDACTED] [Verification of marketing expenses]

Other than [REDACTED], there were no rebates, discounts or commissions in relation to Australian sales and we are satisfied that the amount invoiced was the amount paid by the Australian customers.

In reviewing the information at Confidential Attachment B-4 of the submission we found that there were [REDACTED]. We asked the company to explain [REDACTED]. The company provided [REDACTED] and an allocation of [REDACTED]. Egger explained [REDACTED]. The company supplied [REDACTED] and demonstrated the allocation of [REDACTED]. [Explanation of confidential features of specific export transactions]

Copies of the documents demonstrating the accuracy of the Australian sales data included in the company's submission, which are described above, form **confidential attachments EXP3**.

#### Conclusion: Verification

We were able to reconcile the export sales data provided in the exporter submission in audited accounts and management reports. We consider we have sufficient reliable data to enable us to calculate export prices for the GUC exported to Australia by Egger during the investigation period.

### **3.4 Forward orders**

Egger advised at **Attachment B-2** of its submission, that the company currently has [REDACTED] forward orders for sales to [REDACTED] totalling [REDACTED] m<sup>3</sup>.

### **3.5 Exporter – preliminary assessment**

Having regard to all of the circumstances of sales we consider that Egger is the exporter because it:

- was involved in the decision to manufacture structural timber for its known Australian customers;
- produced the GUC to the specific AS1720.1-2010 rating and dimensional requirements of its Australian customers of structural timber;

- was responsible for coordinating the production completion and overseas despatch such that it met the estimated delivery schedule specified in the purchase order;
- was responsible for movement and cost of the goods to the point of export;
- was responsible for arranging overseas freight for the GUC.

It is our view that Egger was closely involved in the decisions that led to the export of the GUC from Germany to Australia. We consider that Egger retained control of the export transactions and management of the goods to the point of export, and made the necessary arrangements to ensure the goods manufactured specifically for the Australian market were exported to its Australian customers.

### 3.6 The importer – preliminary assessment

The negotiation process and arrangements for the export sales to Australia are described above in section 3.2. Export sales to all Australian customers were at the [REDACTED] level. According to [REDACTED]

[REDACTED] Section 269T(1) of the Act defines the "importer" as the beneficial owner of the goods at the time of their arrival within the limits of the port or airport in Australia at which the goods have landed.

#### Conclusion

Having regard to the circumstances of the export sales, and subject to the findings in the importer visit reports, we have made the following conclusions about the importers:

[confidential]

More detailed information on the importers is contained in the respective importer visit reports, which have been placed on the Public Record for this investigation.

### 3.7 Arms length

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



■ [REDACTED], 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.

For the above reasons, we are satisfied that sales of the GUC from Egger to its Australian customers are sales that are arms length transactions in terms of s.269TAA of the Act.

### 3.8 Export price

Based on the information provided in Egger's submission and information verified during our visit we consider that Egger is the exporter of the GUC sold to the Australian customers and that the sales were arms length transactions.

In respect of sales to [REDACTED], we consider there are reasonable grounds to conclude that the GUC were exported to Australia other than by the importer, and that they were purchased by the importer from the exporter. Therefore, we have established export prices under s. 269TAB(1)(a) using the Egger invoiced [REDACTED] export prices, less charges arising after the exportation of the goods and less [REDACTED].

In respect of sales to [REDACTED] and [REDACTED], we consider there are reasonable grounds to conclude that the GUC were exported to Australia other than by the importer, and that they were purchased by the importer from the exporter. Therefore, we have established export prices under s.269TAB(1)(a) using the Egger invoiced [REDACTED] export prices, less charges arising after the exportation of the goods.

Export price calculations for all Egger's exports of the GUC during the investigation period are at **confidential appendix 1**. In summary, the quarterly weighted average export prices for each grade, per customer were:

[confidential]

## 4 COST TO MAKE AND SELL

### 4.1 General

In response to the exporter questionnaire, the company provided quarterly cost to make and sell data for both domestic sales and goods exported to Australia. The cost to make and sell data was the same for both markets - with the exception of delivery expenses.

At the verification visit the company explained that the quarterly cost to make and sell values were the averages of monthly costs to make and sell and it provided us with a spreadsheet of these monthly values (**confidential attachment CTMS1**). We noted that the quarterly averages were simple averages, and recalculated the quarterly cost to make and sell values to reflect weighted averages (**confidential attachment CTMS2**). The resulting difference was very minor.

The company explained that it allocated costs by the profit centres of:

- log sorting;
- sawmill;
- drying chamber; and
- planing line.

The costs allocated to each profit centre were applied to the volume of timber that was processed by that profit centre. As a result, green timber and rough sawn timber had a different cost to make than planed/dressed timber as the former timber products did not undergo kiln drying and/or planing, whereas the latter underwent all processes.

The volume of material that went through each stage of the process was allocated according to recovery ratios. The company's ERP measured the inputs and corresponding outputs. The cost accounting system operated on the following recovery rates at each of the profit centres:

Profit centre	Recovery rate (%)
Overall	

The ERP and OLAP reports that record the inputs and outputs for [REDACTED] demonstrate these recovery rates form **confidential attachment CTMS3**.

As a result of these recovery rates, for every 1m<sup>3</sup> of kiln dried, planed/dressed timber that was produced, [REDACTED]

[REDACTED] [Confidential recovery rate details].

Costs were accordingly calculated on a cumulative basis, taking into account the volume needed to produce the required output at each stage of production, as well as the specific costs associated with that stage.

By-products generated at each stage of the process were used to off-set the costs allocated to that profit centre. For example, the revenue from sawdust and wood chips generated by the sawmill was used to offset the costs at the sawmill point.

The company provided us with a worksheet for the cost allocations in the monthly cost to make and sell spreadsheet (**confidential attachment CTMS4**). This worksheet contained the unit values and the cumulative calculations for costs by month and for FY 2011, including:

- log costs;
- proceeds of by-products;
- variable manufacturing costs;
- labour costs;
- [REDACTED] manufacturing costs;
- dispatch; and
- other costs.

We firstly sought to reconcile the unit values for the cost to make and sell to management accounts and audited financial statements to check for completeness and relevance. We then sought to reconcile these to source documents to ensure accuracy.

#### 4.2 Verification of costs to audited financial statements

We asked the company to demonstrate that the unit costs submitted in its response to the exporter questionnaire could be reconciled to its audited financial statements. We advised that the purpose of this was to gain confidence that the data submitted contains all, and only, the relevant cost to make and sell data.

The company explained that in its daily business it uses management accounts [REDACTED]

[REDACTED]. Therefore, the company first demonstrated how the unit costs could be reconciled to the extract from the Management Report, provided in the response to the exporter questionnaire (**Confidential Appendix**

**A.4.3 (d)).** It then demonstrated how the Management Report could be linked to the audited financial statements.

Egger explained that the unit costs used in the cost to make and sell data were extracted from its ERP. Accordingly, Egger provided us with ERP and OLAP reports for log costs, fixed productions costs, direct labour costs and selling costs. We could reconcile the unit costs listed in these reports to the cost to make and sell worksheets and the total amounts for these items to the Management Report for FY 2011. The documents regarding this reconciliation form confidential attachments CTMS5 - CTMS15.

We then sought to reconcile the Management Report to the audited financial statement for FY2011. We found that some costs items, such as log costs, could be easily reconciled to the audited financial statements (confidential attachment CTMS11 & CTMS12). However, other costs, such as labour expenses had significant differences between the amounts listed in the Management Report and the financial accounts (confidential attachment CTMS16). We therefore, sought to reconcile the Management Report in its entirety to the audited financial accounts.

The company explained that the profit listed in the Management Report was [REDACTED]. In order to reconcile this amount to the profit listed in the audited financial statements, we had to add back to the profit in the financial statements the amounts for [REDACTED].

We then had to deduct [REDACTED]. These values were also listed in the audited financial statements. The profit in the audited financial statements, when adjusted [REDACTED] as described above, reconciled with the Management Report. The calculations for this reconciliation are at confidential attachment CTMS17.

As we could therefore reconcile the unit values in the cost to make and sell to the management accounts and the audited financial statements, we were satisfied that the information in the cost to make and sell was relevant and complete.

#### **4.3 Verification of production costs to source documents**

As we had reconciled the unit costs to the Management Reports, we then sought to verify the management Report to source documents to ensure accuracy. We also sought to examine some of the allocation methods used by the company to allocate costs to ensure reasonableness.

##### Log costs

We asked Egger to demonstrate that the log costs it submitted can be traced to source documents for the purchase of logs. The company first provided us with a report from its ERP which listed for each month in the investigation period the total volume of logs purchased (m<sup>3</sup>), the total purchase price and the resulting

price/m<sup>3</sup> of the logs (**confidential attachment CTMS11**). The price per month reconciled with the logs prices used in the cost to make and sell spreadsheet.

The company also provided us with a report from its ERP for the final quarter of FY 2011 with the log purchase volume, price and unit price/m<sup>3</sup> (**confidential attachment CTMS18**). This listed the volume purchased as [REDACTED] m<sup>3</sup> and value as € [REDACTED] and reconciled with the monthly ERP report. The company then provided us with a complete purchase listing for the same period (**confidential attachment CTMS19**). This listed the volume purchased as [REDACTED] m<sup>3</sup> and the value as € [REDACTED], differences of [REDACTED]% and [REDACTED]% respectively to the ERP report. The resulting price per m<sup>3</sup> differed by less than 1% and was € [REDACTED] and € [REDACTED] respectively. The company explained that the ERP report reflected [REDACTED]

The purchasing report [REDACTED]. This resulted in [REDACTED] [Confidential factors influencing ledger accounts].

We selected three suppliers in the purchase listing and requested that the company select an invoice from each supplier and provide us with the invoice and proof of payment. We also requested that Egger reconcile the invoice provided to the purchase listing for two of the three invoices.

Accordingly, we were able to reconcile the invoices noting that the sales listing, and subsequently the unit cost to make and sell, was net of any discounts and included freight to the sawmill. The invoices, proof of payment and ERP reconciliation for log purchases are at **confidential attachment CTMS20**.

#### Proceeds of by-products

We asked Egger to demonstrate that the revenue from by-products, used to offset costs, can be traced to source documents. The company provided a report from its ERP demonstrating the sales revenue and volume of each by-product over the investigation period (**confidential attachment CTMS21**). The listed by-products were brown chips and bark (from debarking in the log sorting process), log trim-offs (from log sorting), woodchips and sawdust (from the sawmill), trim-offs, wood shavings and further trim-offs (from the planing chamber). As the company could identify where in the production process the by-product was produced, it could allocate the revenue as an offset to timber that went through that production process. These amounts reconciled with the amounts used in the cost to make and sell data (**confidential attachment CTMS1**), via the worksheet (**confidential attachment CTMS2**).

The company explained that [REDACTED] were sold externally, while the remaining by-products were used by an associated company [REDACTED]. The company explained that these by-products [REDACTED]

[REDACTED] The invoiced price was based on

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market prices. The company explained that it determined these prices by either referring to market publications or comparing the price of other by-products purchased by the [REDACTED] manufacturer. The products provided by the sawmill [REDACTED]

[Confidential details on sales of by-products].

We sought to reconcile sales of by-products made to the associated company down to source documents for April 2011. Egger provided us with an invoice [REDACTED]

(**confidential attachment CTMS22**). From this invoice we were able to reconcile the values [REDACTED] to the values listed in the ERP report for by-product values. However, the invoiced values for [REDACTED] were less than the amount listed in the ERP report and subsequently used to off-set costs.

[internal company cost accounting practices]

[accounting outcome of internal practice] The company provided us with the ERP report for [REDACTED] which showed the amount invoiced for the month as well as [REDACTED] (**confidential attachment CTMS24**). The sum of the invoiced amount [REDACTED] equalled the total revenue amount listed in the SAP report and used in the cost to make and sell.

We requested proof of payment for the by-products sold to the associated company. [REDACTED]

[Internal accounting practices] The company provided us with the accounts receivable report for April 2011 which showed the invoiced amount for that month (**confidential attachment CTMS25**).

We also asked the company to demonstrate that the invoiced amount was set according to market prices. It provided us with a German industry publication by [REDACTED] (**confidential attachment CTMS26**). This showed the *atro* price (the price per cubic metre excluding the water content) of wood chips in [REDACTED]. [market intelligence] We noted that the *atro* price listed in the invoice to the particle board manufacturer in [REDACTED]. We therefore considered that the price between the associated companies reflected market prices.

We also sought to verify to source documents for sales of another by-product [REDACTED], sold to an external party in April 2011. The ERP report for by-products

listed the total revenue of [REDACTED] in the April 2011 as €[REDACTED]. We were provided with the [REDACTED] ledger entry for April 2011, which showed that the value of [REDACTED] sold during the period was €[REDACTED]. However, due to post invoice discounts totalling €[REDACTED] the total [REDACTED] revenue was €[REDACTED]. We were also provided with a [REDACTED] sales summary for the month by customer. The total in the sales summary reconciled to the total sales amount listed in the ledger entry (€[REDACTED]). This listing was expanded to show all sales to one particular customer. The company then provided us with the invoices for this customer which we were able to reconcile the ERP listing. The documents relating to the [REDACTED] reconciliation form confidential attachment CTMS27.

#### Variable manufacturing costs

The company explained that it normally included packaging costs in its variable manufacturing costs but in this instance it had separated them out as required by the exporter questionnaire. Accordingly, the report from its ERP that supported the unit prices in the cost to make and sell spreadsheets showed the total variable costs and the specific packing costs (confidential attachment CTMS5). These were used to calculate the variable cost amount exclusive of packaging. In this report costs were recorded against each of the profit centres (log sorting, greenwood, drying chambers and planing chambers).

To demonstrate that these costs were accurate, we requested evidence to support the variable unit cost for the profit centre of log sorting for May 2011, which was €[REDACTED]. The company provided us with a report from its ERP for the variable costs allocated to the log sorting profit centre (confidential attachment CTMS28). These costs included items such as [REDACTED]. This account reconciled with the unit cost.

The company explained that as its ERP automatically allocated costs to the profit centres, it was able to determine which costs were specifically applicable to the cost of planed, kiln dried timber.

#### Electricity

[REDACTED] [electricity supply arrangement]

The company provided us with an extract from its ERP which showed the price it paid for electricity [REDACTED], at a rate of [REDACTED] €/MWH. It explained that this tariff was set [REDACTED]. It also provided us with two electricity invoices from [REDACTED]. The amount paid to the external supplier was [REDACTED] €/MWH [REDACTED]. Therefore, we were satisfied that the electricity was purchased from the associated plant at a reasonable market price. The invoices and ERP report for electricity are at confidential attachment

**CTMS29.** We noted that the tariff was inclusive of a carbon tax. We asked the company whether it received [REDACTED] or whether it participated in [REDACTED]. The company advised that it did not, and that its electricity expense was inclusive of the carbon tax.

#### 4.4 Selling, general and administrative costs

The company explained that the selling, general and administrative monthly costs were derived from its ERP for the planing chamber profit centre (**confidential attachment CTMS13**). The company explained that its ERP automatically allocated the selling expenses to different products based on the production costs. This allocation was then reviewed by the system every few months. To demonstrate this, the company provided us with its administration expense ledger for FY 2011 (**confidential attachment CTMS14**), which reconciled to the Management Account. A ledger that also showed the allocation of the administration expense to kiln dried and planed/dressed timber was also produced (**confidential attachment CTMS15**).

We noted that [REDACTED]% of selling expenses were allocated to planed/dressed timber. Customs and Border Protection generally allocates selling, general and administrative expenses to products based on revenue. We calculated that planed/dressed timber accounted for [REDACTED]% of Egger's total revenue. Therefore, we considered the company's allocation method for selling costs to be reasonable.

#### 4.5 Depreciation, financing and land lease

The company informed us that the cost to make and sell information provided in the response to the exporter questionnaire [REDACTED] [Confidential accounting practice]. We informed the company that an amount for costs such as financing and depreciation would need to be included in the cost to make and sell calculation. The company accordingly provided us with a revised cost to make and sell spreadsheet which included what it considered to be appropriate depreciation and financing costs (**confidential attachment CTMS1**).

#### 4.6 Depreciation

The company explained [REDACTED] [capital holding arrangements] It pays [REDACTED], as recorded in the financial statements. As the [REDACTED] was an associated company we informed the company that we would use the actual depreciation rate for the equipment and machinery rather than [REDACTED].

[REDACTED]. The company provided us with a depreciation report for the sawmill equipment and buildings, which listed the annual depreciation value (**confidential attachment CTMS30**). The company also provided us with the



depreciation for the equipment [REDACTED], which was also listed in the financial statements.

Egger argued that the per unit depreciation cost should be based on its actual capacity, rather than its actual production. It argued that if the entire depreciation amount was allocated across its production regardless of whether its capital was being fully utilised, then it would be disadvantaged by an unfairly high unit depreciation expense, as it was not producing at full capacity.

The company provided us with its calculation of depreciation per unit based on the total capacity of the sawmill (**confidential attachment CTMS31**). To support the company's claim of what the full capacity of the plant was, it also provided us with a production report which demonstrated what the plant could produce per shift (**confidential attachment CTMS32**). Based on this calculation of capacity, Egger appeared to operate at [REDACTED]% capacity during the investigation period.

Although we considered the company's proposed approach to the allocation of its depreciation charge, we allocated the entire depreciation charge across the company's actual production output, to reflect a fully absorbed cost of capital, regardless of capacity utilisation. Therefore, we allocated depreciation according to the volume of timber produced. We determined what proportion of depreciation should be allocated to planed/dressed timber according to revenue. We then divided this allocation by the volume of planed/dressed timber produced, to determine the unit depreciation value (€/m<sup>3</sup>). The depreciation method proposed by the company resulted in a depreciation charge of [REDACTED]€/m<sup>3</sup>. Whereas the method we applied to the company's unit cost to make and sell calculation, resulted in a unit depreciation charge of [REDACTED]€/m<sup>3</sup>.

#### 4.7 Finance costs

We informed the company that we would allocate an appropriate amount for financing in our unit cost to make and sell calculation. The company explained that financing for all the Egger companies was conducted at the group level. The company calculated that the total finance expense for the Egger group companies, as listed in the Egger annual statement, was [REDACTED]% of the total company's revenue. We considered this to be reasonable amount and added a finance cost of [REDACTED]% of revenue to the cost to make and sell calculation. The calculations and relevant excerpts of the EGGER annual statement is at **confidential attachment CTMS31**.

#### 4.8 Other Costs

The company also informed us that the costs it provided for structural timber did not include [REDACTED]. The company argued that [REDACTED] should not be included in the cost to make and sell calculation, [REDACTED]

[REDACTED]. Furthermore, the company argued that this would result in unfairly high costs to Egger [REDACTED].

[REDACTED]. The company provided us with [REDACTED] (confidential attachment CTMS33).

We considered the argument put forward by Egger but are of the view that the [REDACTED] should be included in the cost to make and sell, to reflect its fully absorbed costs of capital. Accordingly, we divided the [REDACTED] by the volume of timber produced, resulting in a cost of [REDACTED] €/m<sup>3</sup>.

Calculation regarding depreciation, financing costs and [REDACTED] are at confidential appendix 2.

#### 4.9 Costs to make and sell – conclusion

We consider these costs to make and sell are a reasonably complete, relevant and accurate reflection of the company's actual cost to make and sell 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.

**5 DOMESTIC SALES****5.1 Price paid or payable in domestic sales**Domestic Sales

Egger provided a list of its domestic customers for like goods during the investigation period, giving business usage category (level of trade), and sales quantity, which is at **confidential attachment DOM1**.

Domestic sales process and pricing

The company explained that in the case of centre-cut timber products, it only produces [REDACTED] [stockholding practice]. During the tour of the mill, we observed that there was [REDACTED]. Although in the context of a discussion concerning domestic price lists, it was acknowledged that after the investigation period (since July 2011), the company [REDACTED].

In its response to the exporter questionnaire, Egger provided a price list for structural timber sold on the German domestic market, as at 29 September 2011 (Confidential **Appendix D-3**). We observed that unit prices were subject to quantities (full pack, half-load, full load) ordered. However, prices were not affected by the dimensions or the lengths of timber. In summary:

Full pack	Half-load	Full-load	[REDACTED]	Minimum volume held in stock
€ [REDACTED]	€ [REDACTED]	€ [REDACTED]	€ [REDACTED]	[REDACTED]

We asked the company to explain the role of the price list in the negotiation and settlement of unit prices for sales of structural timber to the German domestic market. The company explained that the price list provided [REDACTED] of structural timber, and that it was not publicly available.

[REDACTED] [Confidential domestic pricing details]. The domestic price list was settled between the commercial director and the domestic sales representative. There were no price lists for [REDACTED], for whom prices were negotiated.

The company explained that the domestic sales process closely followed the approach applied in relation to export sales to Australia. However, the company acknowledged that there were no [REDACTED].

We asked the company whether there were any rebate agreements between itself and its domestic customers. The company advised that there were not. We asked the company for some proof of the absence of rebates, [REDACTED].

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Certain structural timber from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

[REDACTED]

rebates]

We were advised that sales prices were both on an [REDACTED] and [REDACTED] basis, which the company described as [REDACTED] and [REDACTED] terms. Notwithstanding the company's classification, the documents supported an interpretation of [REDACTED] and [REDACTED]. In the case of the sales, the price included the [REDACTED]. The company engaged the services of a carrier to perform this function.

Egger negotiates the same payment terms and conditions for domestic customers for purchases across its entire product range. Although discounts are negotiated with customers for payments within [REDACTED] or [REDACTED] days, the maximum credit period is [REDACTED] days.

Egger advised that it does not use a sales agent and has no distributor agreements or contracts relevant to its domestic sales of like goods. The company further explained that all domestic sales in the investigation period were to unaffiliated companies.

#### Completeness of domestic sales data

In seeking to ensure that the domestic sales data we had been provided in respect of like goods was accurate, we were satisfied that, in the course of verifying the company's export sales data, Egger had demonstrated a link between its total sales data and the audited financial statements, management reports and source documents in such a manner that would allow us to assess whether the data was relevant and complete.

Having agreed the management report for sales in FY 2011 (confidential attachment GEN13) to the audited financial statements (confidential attachment GEN4), we then compared the management report for sales in the investigation period (confidential attachment GEN6) to the company's Confidential Appendix A-6 contained in its response to the exporter questionnaire. We had previously reconciled the management report for the investigation period to the company's exporter questionnaire response (Confidential Appendix A-5). Further, we were satisfied that the management

reports contained a complete summary of the company's gross sales volume and value.

Taking the management report for all sales in the investigation period as our starting point (**confidential attachment GEN6**), Egger separated out gross sales by material group and by market. We compared the detailed German domestic sales report for the investigation period (**confidential appendix D-4**) for the planed timber material group (■■■■), and found that the sales value did not agree with the management report for that material group and market. The company explained that the management report provided gross sales of all products within the material groups, including sales of reject or "non-structurally graded" timber. We asked the company to reconcile this difference. It produced a sales report of "reject" or non-structurally graded timber. We were then able to reconcile the detailed German domestic sales report for the investigation period to the management report for the same period.

Egger then generated a detailed sales report for greenwood (material group ■■■■) and kiln dried (material group ■■■■) timber in the investigation period within the dimensions of the GUC (**confidential attachment DOM1**). The company also defined the end-uses to which these products could be put. We reviewed the product codes and considered the end-use descriptions and were satisfied with the relevance and completeness of the domestic sales data supplied by the company.

#### Verification of domestic selling prices to source documents

Egger provided sample documents for two transactions from domestic sales in its response to the exporter questionnaire at Confidential **Appendix D-7**. We selected an additional seven transactions for verification to source documents during our visit. For each transaction we typically obtained the following documents:

- initial correspondence;
- purchase order/contract;
- pro forma delivery note/order confirmation;
- commercial invoice;
- payment advice;
- payment reconciliation;
- payment confirmation
- freight forwarding charges; and
- discount allocation/reconciliation.

We examined the documents and compared the details for the product codes, model, dimensions, date of sale, payment terms, quantity, price, inland transport, with the information that Egger had included in its domestic sales spreadsheet that had been provided at Attachment D-4 of the company's

submission. The information in the source documents and spreadsheets for the sales to the German domestic customers matched.

We then matched the invoices to the discount allocation/reconciliation sheet and also matched invoiced amounts with bank receipts to verify full payment of the invoiced amount. We found no discrepancies between those documents and the information at Confidential **Appendix D-4** of the submission.

In reviewing the information at Confidential **Appendix D-4** of the submission we found that there were [REDACTED] to the transactions. We asked the company to explain the circumstances surrounding [REDACTED]. The company provided copies of [REDACTED] and an allocation of [REDACTED] to the customers' accounts. Egger explained that [REDACTED] [Confidential export transaction details].

Copies of the documents demonstrating the accuracy of the Australian sales data included in the company's submission, which are described above, form **confidential attachments DOM2**.

#### Conclusion: Verification

We were able to reconcile the export sales data provided in the exporter submission in audited accounts and management reports. We consider we have sufficient reliable data to enable us to calculate export prices for the GUC exported to Australia by Egger during the investigation period.

##### **5.1.1.1 Inland transport expenses**

Egger submitted that its inland transport expense is generated by [REDACTED] for transport from Egger's sawmill to the customer in the case of its [REDACTED] sales. Egger could identify actual individual transport charges for sales to its domestic customers. However, for the purpose of completing its domestic sales spreadsheet (Appendix D-4), the company calculated a weighted average inland transport expense per cubic metre per month for each customer for the investigation period. A copy of the domestic freight summary forms **confidential attachment DOM3**.

We compared the domestic inland transport expense allocated to our selected domestic sales transactions to the actual inland transportation expense incurred and found that the amounts agreed with an immaterial (<1%) difference. Documents forming the actual delivery expense amounts form **confidential attachment DOM4**.

##### **5.1.1.2 Domestic discounts**

As mentioned above, Egger offered discounts to customers who settled their accounts [REDACTED] days.

We were able to verify the accuracy of the discounts allocated to individual domestic sales contained in the detailed domestic sales spreadsheet (**Appendix D-4**).

We traced the total discounts allocated to domestic sales of kiln dried planed structural timber to the audited financial statements for FY 2011 via the management accounts. This evidence forms **confidential attachment DOM5**.

## 5.2 Arms Length Transactions

We asked Egger if any domestic sales of like goods in the investigation period were made to related parties. Egger advised that they had no relationship with any of its domestic customers.

We found no evidence:

- of any consideration payable in respect of the goods other than their price; or
- that the price is influenced by any relationship between Egger's customers (or any customers' associates) and Egger (or any associate); or
- that Egger's customers (or any associates) 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.

Therefore, we are satisfied that Egger's domestic sales of like goods are arms length transactions in terms of s. 269TAA of the Act.

## 5.3 Ordinary course of trade

We examined Egger's domestic sales of structural timber to determine if they were sold in the ordinary course of trade. We compared the price paid for each domestic transaction with the corresponding quarterly domestic cost to make and sell for the investigation period. Where the sales were unprofitable we then compared the prices of those sales to the weighted average cost to make and sell for the investigation period as a measure of whether the loss was recoverable. Further information regarding the cost to make and sell is described in section 4 (Cost to Make and Sell), above.

We found that that the volume of unprofitable sales, where the losses were not recoverable, represented approximately █% of domestic sales. We consider that the sales at a loss (where the losses were not recoverable), represent a substantial quantity and therefore those sales are considered not to be in the ordinary course of trade.

Ordinary course of trade test calculations are included within **confidential appendix 3**.

#### 5.4 Volume and suitability of domestic sales

Sales of S10 structural timber on the domestic market during the investigation period that were recoverable represent █% of the volume of all sales to Australia. The recoverable volume is similar when compared only to exports of MPG10. We consider this to be a low volume of sales<sup>3</sup> and therefore we consider that the normal value of goods exported to Australia cannot be ascertained using domestic sales<sup>4</sup> by reason of the low volume of sales<sup>5</sup> relevant for determining normal value using domestic selling prices in terms of s.269TAC(1) of the Act

These calculations are detailed in **confidential appendix 3**.

#### 5.5 Domestic sales – summary

Although the price paid for the goods in domestic sales of like goods was established satisfactorily, we found that there was a low volume of sales relevant 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.

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<sup>3</sup> Section 269TAC(14) of the Act

<sup>4</sup> Section 269TAC(1) of the Act

<sup>5</sup> Section 269TAC(2)(a)(i) of the Act



**6 THIRD COUNTRY SALES**

In its submission, Egger provided a summary of sales of kiln dried planed structural timber to [REDACTED] at Confidential **Appendix F-1**.

We selected an additional nine transactions for verification to source documents during our visit. For each transaction we typically obtained the following documents:

- initial correspondence;
- purchase order/contract;
- order confirmation;
- Bill of Lading;
- packing list;
- payment advice;
- payment reconciliation;
- payment confirmation
- commercial invoice;
- freight forwarding charges; and
- proof of payment of costs associated with the sale.

We examined the documents and compared the details for the product codes, model, dimensions, date of sale, shipping and payment terms, quantity, price, inland transport and freight charges, with the information that Egger had included in its export sales spreadsheet that had been provided at Confidential **Appendix F-1** of the company's submission. The information in the source documents and spreadsheets for the sales to [REDACTED] matched.

We then matched the invoices to the Bill of Lading and also matched invoiced amounts with bank receipts to verify full payment of the invoiced amount. We found no discrepancies between those documents and the information at Confidential **Appendix F-1** of the submission.

Copies of the documents demonstrating the accuracy of [REDACTED] sales data included in the company's submission, which are described above, form **confidential attachments 1**.

**7 NORMAL VALUE****7.1 Sales by other sellers**

Egger acknowledged that there are numerous other major producers of structural timber that sell the goods domestically. Cooperation by other producers is the subject of separate verification exercises by Customs and Border Protection. The outcome of those inquiries will be placed on the public record.

**7.2 Constructed normal value**

Based on the information provided by Egger, and the verification conducted on site, we are satisfied that the cost to make and sell information provided is suitable for determining a constructed normal value under s.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 the recoverable sales of kiln dried, dressed timber.

Subregulation 181A(2) of the *Customs Regulations 1926* ( **the Regulations**) provides that, if reasonably possible, the profit must be calculated 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. Egger argues that rough sawn timber or green-wood are not like goods to the goods exported to Australia. Based on Egger's arguments, we consider that these goods compete in different markets and are not appropriate to examine for the purpose of profit under r.181(A) of the Regulations.

Subregulation 181A(3) provides that if the Minister is unable to determine profit under subregulation 181(A)(2), he or she must work out the amount:

- "(a) by identifying the actual amounts realised by the exporter or producer from the sales of the same general category of goods in the domestic market of the country of export; or

- "(b) by identifying the weighted average of the actual amounts realised by other exporters or producers from the sale of like goods on the domestic market of the country of export; or
- "(c) subject to subregulation 181A(4), by using any other reasonable method and having regard to all relevant information<sup>6</sup>."

We have assessed the weighted average unit prices for Egger's timber sales across all categories and compared them with the weighted average costs over the investigation period. We have found that on average, [REDACTED] These calculations and the assumptions used are at **confidential appendix 4**. This finding of [REDACTED] on the German domestic market is supported by the audited financial statements, which record [REDACTED] the 2010-11 financial year. Therefore, we are unable to determine a profit margin under subregulation 181(A)(3)(a).

We also currently have no information regarding the profit margin of other German producers to determine profit under paragraph 181(A)(3)(b) of the Regulations. Therefore, at this time, we have had regard to all relevant information.

[REDACTED] [confidential

market information]

We have assessed the remaining recoverable sales of kiln dried, dressed timber on the German domestic market. While, as per Customs and Border Protection's policy, this profit on these sales will not be used as a basis for normal value, the profit margin can provide an indication of profit levels achievable in the domestic. Sales that were recoverable, when compared to the appropriate quarterly cost to make and sell, had a weighted average profit margin of [REDACTED]%. These calculations are at **confidential appendix 5**.

<sup>6</sup> Subregulation (4) states: If:

- (a) the Minister uses a method of calculation under paragraph (3)(c) to work out an amount representing the profit of the exporter or producer of the goods; and
- (b) the amount worked out exceeds the amount of profit normally realised by other exporters or producers on sales of goods in the same general category in the domestic market of the country of export;

the Minister must disregard the amount by which the amount worked out exceeds the amount of profit normally realised by other exporters or producers.

Therefore, we consider that no profit margin should be added under 181(A)(3)(c).

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 freight, commission, handling and other charges and credit terms are warranted and are therefore incorporated into the constructed normal value calculation.

### 7.3 Adjustments

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

Adjustment	Add to, or deduct from, domestic CTMS
Domestic inland freight	Deduct
Export inland freight	Add
Commission	Add
Handling and other charges	Add
Credit terms	Add

### 7.4 Inland freight

#### Domestic freight

We consider a downward adjustment for the inland freight expenses in the normal value calculation is required to ensure fair comparison to export price. In the company's domestic cost to make and sell data, the cost of freight has been included in the delivery expense item along with packaging. Egger also provided domestic inland freight on a line-by-line basis for domestic sales. In order to calculate an appropriate downward adjustment, we used the quarterly weighted average cost of freight on a cubic metre basis from the domestic sales listing.

#### Export freight

We also consider that an upward adjustment for the inland freight expenses in the normal value calculation is required to ensure fair comparison to the export price. Egger provided export inland freight on a line-by-line basis in the Australian sales spreadsheet. In order to calculate an appropriate upward adjustment, we used the quarterly weighted average cost of freight on a cubic metre basis as listed in the Australian sales spreadsheet. A summary of inland freight expenses forms **confidential attachment ADJ1**.

### 7.5 Commission

We considered that an upward adjustment to the normal value for commission was required to ensure fair comparison to the export price. As noted in the export sales sections above, [REDACTED]

[REDACTED] [confidential information regarding commissions]

### 7.6 Handling and other charges

We considered an upwards adjustment to the normal value was required to ensure fair comparison to the export price. As noted in the export sales section (above), additional handling and other charges were incurred in the export process prior to it reaching the FOB level. Handling and other charges were listed on a line-by-line basis in the Australian sales spreadsheet. We determined an upwards adjustment to the normal value using the quarterly weighted average handling and other charges per cubic metre as listed in the Australian sales spreadsheet.

### 7.7 Credit terms

As discussed in the export sales section (above), Egger provides credit terms to Australian customers [REDACTED]. In its response to the exporter questionnaire, Egger provided us with the rates for short terms borrowing during the investigation period, as shown below:

Interest Rates	Per cent (%)
Jul-10	[REDACTED]
Aug-10	[REDACTED]
Sep-10	[REDACTED]
Oct-10	[REDACTED]
Nov-10	[REDACTED]
Dec-10	[REDACTED]
Jan-11	[REDACTED]
Feb-11	[REDACTED]
Mar-11	[REDACTED]
Apr-11	[REDACTED]
May-11	[REDACTED]
Jun-11	[REDACTED]

Egger also provided us with an extract of interest rates for the three month Euro Interbank Offered Rate Euribor) to support these claimed interest rates to (confidential attachment ADJ2).

Since the cost to make and sell data was the same for both export and domestic sales, we consider that the data is exclusive of credit. We considered an upwards adjustment to the normal value should be made based on the quarterly average of the exchange rates and the export credit terms of ■ days. This results in a very minor adjustment.

## 7.8 Adjustments - conclusion

We are satisfied that there is sufficient and reliable information to justify the following adjustments, in accordance with s. 269TAC(9) of the Act, and we consider these adjustments are necessary to ensure a fair comparison of normal values and export prices:

Domestic inland freight	<b>Deduct</b> the quarterly weighted average cost of inland freight per m3.
Export inland freight	<b>Add</b> the quarterly weighted average cost of export freight per m3.
Commission	<b>Add</b> the quarterly weighted average cost of commission per m3.
Handling and other charges	<b>Add</b> the quarterly weighted average cost of handling and other charges per m3.
Credit terms	<b>Add</b> an amount based on the quarterly average interest rate and credit terms of 60 days.

## 7.9 Normal value - preliminary assessment

We consider that information gathered from Egger detailed in this report and its attachments, can be relied upon to establish normal values under s. 269TAC(2)(c) of the Act.

Although, domestic sales of structural timber by Egger were found to be transactions that were arms length, they were not at prices that were in the ordinary course of trade.

Based on the information provided by Egger and the verification conducted on site, we are satisfied that the costs to make and sell are suitable for determining a constructed normal value under section 269TAC(2)(c) of the Act. We consider those costs require adjustment in terms of s. 269TAC(9) of the Act to ensure fair comparison to the export prices, for the following:

Domestic inland freight  
Export inland freight  
Commission  
Handling and other charges  
Credit terms

Details of the constructed normal value calculation for Egger are at confidential appendix 6.

**8 DUMPING MARGINS: PRELIMINARY ASSESSMENT**

In accordance with s. 269TACB of the Act we have assessed dumping margins by comparing the export prices determined in respect of quarterly weighted averages, for each customer during the investigation period with the corresponding quarterly weighted average normal values determined during the investigation period.

The calculations were brought together in a weighted average product margin for Egger of **-4.43%**.

The company's product margin was negligible in terms of s. 269TDA(1) of the Act.

Calculations of dumping margins are at confidential appendix 7.

It should be noted that this dumping margin is based on a normal value that does not include any profit.

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<b>9 LIST OF APPENDICES &amp; ATTACHMENTS</b>
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**Attachments**

Non-confidential attachment GEN1	Egger brochure: Plant Facts Brilon
Non-confidential attachment GEN2	Egger brochure: Egger Sawmill in Brilon
Non-confidential attachment GEN3	Egger brochure: In the heart of Europe - Egger Sawmill in Brilon
Confidential attachment GEN4	Audited accounts for Egger FY 2011
Confidential attachment GEN5	Organisation Chart
Confidential attachment GEN6	Sales Report for Investigation Period
Confidential attachment GEN6A	Detailed product code listing for CY 2011
Confidential attachment GEN7	German Standard DIN 4074-1
Confidential attachment GEN8	European adaption of German Standard DIN 4074-1
Confidential attachment GEN9	Visual Grading sheet for timber rated to S10 grading
Confidential attachment GEN10	Visual Grading sheet for timber rated to MGP10 & 12 grading
Confidential attachment GEN11	Certificate of compliance: Mechanical stress-graded timber according to AS/NZS 1748.1-2011
Confidential attachment GEN12	Extract from ERP used to agree sales to audited accounts
Confidential attachment GEN13	Sales report for FY 2011
Confidential attachment EXP1	Sales report of Australian sales of goods other than the GUC
Confidential attachment EXP2	Sales report of Australian sales of GUC
Confidential attachment EXP3	Copies of the documents demonstrating the accuracy of the Australian sales data included in the company's submission
Confidential attachment CTMS1	Monthly cost to make and sell
Confidential attachment CTMS2	Recalculated cost to make and sell
Confidential attachment CTMS3	SAP reports for recovery rates

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Certain structural timber from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and USA

## PUBLIC RECORD

PUBLIC RECORD

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Confidential attachment CTMS4	Calculations for the cost to make and sell
Confidential attachment CTMS5	Monthly SAP report for variable manufacturing costs
Confidential attachment CTMS6	FY SAP report for variable manufacturing costs
Confidential attachment CTMS7	FY SAP report for direct labour
Confidential attachment CTMS8	FY SAP report for fixed production costs
Confidential attachment CTMS9	FY SAP ledger for fixed production costs
Confidential attachment CTMS10	Monthly SAP report for fixed and variable manufacturing costs per unit
Confidential attachment CTMS11	Monthly log costs
Confidential attachment CTMS12	FY ledger listing for raw material costs
Confidential attachment CTMS13	Monthly SAP report for selling costs
Confidential attachment CTMS14	SAP ledger for selling costs for kiln dried planned timber
Confidential attachment CTMS15	FY SAP ledger for all administration costs
Confidential attachment CTMS16	SAP reports for labour costs
Confidential attachment CTMS17	Reconciliation between Management Report and financial statements
Confidential attachment CTMS18	SAP report – Log purchases Feb-Apr 2011
Confidential attachment CTMS19	Purchase listing – Log purchases Feb-Apr 2011
Confidential attachment CTMS20	Log invoices, proof of payment and reconciliation to purchase listing
Confidential attachment CTMS21	SAP report – By-products
Confidential attachment CTMS22	April invoice for by-products
Confidential attachment CTMS23	Invoice for sawdust and woodchips
Confidential attachment CTMS24	SAP ledgers for sawdust and woodchips
Confidential attachment CTMS25	Payment for by-products
Confidential attachment CTMS26	[REDACTED]
Confidential	Bark invoices and reconciliation

attachment CTMS27	
Confidential attachment CTMS28	SAP report for variable costs for the log sorting profit centre May 2011
Confidential attachment CTMS29	Documents regarding electricity price
Confidential attachment CTMS30	Depreciation summary
Confidential attachment CTMS31	Depreciation calculations and excerpt from EGGER annual report
Confidential attachment CTMS32	Production report
Confidential attachment CTMS33	
Confidential attachment DOM1	Sales report of domestic sale of like goods
Confidential attachment DOM2	Copies of the documents demonstrating the accuracy of the Australian sales data included in the company's submission,
Confidential attachment ADJ1	Inland transportation costs and handling charges
Confidential attachment ADJ2	Euribor interest rates

**Confidential Appendices**

Confidential Appendix 1	Export price
Confidential Appendix 2	Depreciation, financing and land
Confidential Appendix 3	Domestic sales, ordinary course of trade test and sufficiency test
Confidential Appendix 4	Profitability of other products
Confidential Appendix 5	Profitability of recoverable like goods
Confidential Appendix 6	Constructed normal value
Confidential Appendix 7	Dumping Margin