



Government  
20 Brindabella Circuit  
Brindabella Business Park  
Canberra Airport ACT 2609

PO Box 7396  
Canberra Business Centre ACT 2610

ABN: 51 194 660 183  
Telephone: +61 2 6248 1111  
Facsimile: +61 2 6248 1122  
[www.kpmg.com.au](http://www.kpmg.com.au)

FILE

98

Mr Geoff Gleeson  
Director Operations  
International Trade Remedies Branch  
Australian Customs and Border Protection Service  
Customs House  
5 Constitution Avenue  
Canberra ACT 2601

21 December 2011

Dear Geoff

**Re: Independent Expert Cost Accounting Advice for the Manufacture of Structural Timber**

***Background***

The Australian Customs and Border Protection Service (Customs and Border Protection) has undertaken cost verification procedures for two exporters of structural timber to Australia, in response to an application under Section 269TB of the *Customs Act 1901*. The exporters are:

- Stora Enso Wood Products Plana SRO ('Plana'), and
- Stora Enso Wood Products Zdirec SRO ('Zdirec').

Both legal entities are wholly owned by Stora Enso Wood Products GmbH Austria.

We understand that:

- the investigation period is 1 July 2010 to 30 June 2011, and the latest audited financial statements available were for the year ended 31 December 2010;
- Customs and Border Protection determined to calculate *Normal Values* (cost to manufacture and sell plus profit margin) based on the *Constructed Method*, having determined whether there are *Like Goods* by considering the attributes of the *Goods Under Consideration* and other goods sold by the parties (this determination was not included in the scope of KPMG's engagement);

- Customs and Border Protection compared *Normal Values* with calculated average selling prices Ex-Work of goods exported to Australia to determine any *Dumping Margin*.

### **Objective**

Customs and Border Protection engaged KPMG to undertake an independent review of the procedures followed, and evidence obtained, by the Export Visit Team to determine whether:

- 1 Verification was adequate, and
- 2 Cost data is reasonable and reliable for purpose of assessing *Normal Values*.

Our assessment in relation to your specific requests is provided in the following sections. Our scope, approach and findings are identified in this report. This report should be read in conjunction with *Appendix A – Disclaimer*.

### **Scope**

Our procedures have been limited to discussions with the Exporter Visit Team and examination of a number of documents and files, most notably:

1. International Trade Remedies Branch's *Verification Guidelines* dated July 2009;
2. Stora Enso Wood Products Plana s.r.o. *Exporter Questionnaire Response* dated 19 October 2011 and Stora Enso Wood Products Zdirec s.r.o. *Exporter Questionnaire Response* dated 19 October 2009;
3. Customs and Border Protection's draft confidential version of the *Exporter Visit Report* of for Stora Enso Wood Products Plana s.r.o and Stora Enso Wood Products Zdirec s.r.o Czech Republic dated November 2011;
4. Audited financial statements for Plana and Zdirec to 31 December 2010;
5. Extracts of the general ledger of Plana and Zdirec;
6. Costing spreadsheets provided by Plana and Zdirec for total sawmills production for the period 1 July 2010 to 30 June 2011;
7. Data from Plana and Zdirec on Australian sales for the period 1 July 2010 to 30 June 2011; and
8. Supporting documents provided by Customs and Border Protection, including internal costing documents and additional information provided by Plana and Zdirec.

### ***Scope Limitations***

The engagement did not extend to reviewing other materials or consulting parties external to Customs and Border Protection, or to considering verification procedures and supporting evidence not related to the calculation of *Normal Values* and *Dumping*, such as may relate to the determination of whether there are *Like Goods* or whether exporters have benefited from a *Subsidy*.

### ***Approach***

We have undertaken this engagement by:

- Reviewing key documents, particularly items 1 to 8 above;
- Discussing testing and verification procedures with members of the Exporter Visit Team; and
- Assessing testing and verification procedures with reference to what KPMG would consider to be reasonable procedures.

We have relied upon the representations of staff in the International Trade Remedies Branch to explain the testing and verification procedures performed in respect of the focus areas of the engagement.

### ***Findings***

Our findings in respect of the specific issues communicated by Customs and Border Protection are as follows.

#### ***1 Adequacy of verification***

We have observed that the Exporter Visit Team had conducted the following verification procedures:

- Reconciled cost data to audited financial statements – reconciled the operating profit per costing sheets to audited financial statements to 31 December 2010 to ensure that the total costs included in the costing sheet were not understated.
- Agreed account totals to general ledger data - agreed all key categories of component cost such as raw material, labour, depreciation and manufacturing overheads to reports from the SAP general ledger provided by the exporters.
- Calculated *Normal Value* based on the *Constructed Method*. For the purposes of calculating *Normal Value*, Customs and Border Protection grouped Plana and Zdirec



PUBLIC  
FILE  
FOLIO  
No: 95

due to their common ownership and the ability of their parent entity to control and direct the individual sawmills. The *Normal Value* was calculated based on:

a. the unit production costs of both Plana and Zdirec using a weighted average of the volume of sales to Australia (this method is influenced heavily - more than XXX - by the unit production cost of the exported good of Plana due to the differential in sales to Australia of the two sawmills), and adjusted for sales and general administration costs as if the good were sold domestically.

b. a profit margin for the *Normal Value* for both entities. The mark-up of Zdirec XXXXXX for profitable A-grade goods sold domestically was used for the profit of Zdirec. This mark-up was also used as a proxy for the profit of Plana as:

- i. Plana exported XXX of its production, hence had XXXX limited domestic sales;
- ii. XXX of Plana's total domestic sales were unprofitable; and
- iii. Plana had negligible domestic sales of A-grade goods that are similar to the *Goods Under Consideration*.

- Calculation of Australian sales prices - calculated the Ex-Work average selling prices of goods sold to Australia based on the data submitted, and tested a sample of ten Australian sales to original invoices to assess the accuracy of the data used to calculate Australian sales prices.
- Calculation of *Dumping Margin* - compared the *Normal Value* and average selling prices Ex-Work, to determine any *Dumping Margin* (calculated by Customs and Border Protection to be XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX)

KPMG has found that verification procedures in relation to calculating *Normal Values* for dumping allegations were consistent with Customs and Border Protection's *Dumping Manual* and *Verification Guidelines*, and the procedures are considered by KPMG to be reasonable for the purposes of calculating *Normal Values*.

**2 Reasonableness and reliability of cost data for the purpose of assessing Normal Values**

As the calculation of *Normal Value* was influenced heavily by Plana, KPMG notes that key cost items in Plana costing data have been reconciled to independently audited annual financial statements. In particular, Customs and Border Protection reconciled the total costs included in Plana for Quarter 1 and 2 of the costing sheets to total costs per the audited financial statements. Therefore, it would appear that all cost items have been included in the calculation of unit costs across Plana's production.



PUBLIC  
FILE

FOLIO

No. 94

Also, we note from our discussions that Customs and Border Protection performed substantive testing to verify the relevance and accuracy of costing information to underlying transaction documentation, including to invoices for export sales and to SAP general ledger.

Transport and handling costs have been examined by Customs and Border Protection for the purposes of the determination of sales prices Ex-Works.

KPMG also tested reported export sales, included in the calculation of the average sales price, to supporting sales invoices to Australia, thus providing further evidence as to the accuracy of sales data.

Based on the above procedures and data, KPMG has found that the costs data used appear reasonable and reliable for determining *Normal Values*.

Should you have any queries in respect of this report, please contact me or Freddy Lee on (02) 6248 1111.

Yours sincerely

Brandon Brown  
*Director*



PUBLIC  
FILE

FOLIO  
No. 93

## Appendix A – Disclaimer

### Inherent Limitations

This report has been prepared as outlined in the Scope Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, the Australian Customs and Border Protection Service management and personnel consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

### Third Party Reliance

This report is solely for the purpose set out in the Objective Section, and for the Australian Customs and Border Protection Service's information, and is not to be used for any other purpose or distributed to any other party without KPMG's prior written consent.

This report has been prepared at the request of the Australian Customs and Border Protection Service in accordance with the terms of Purchase Order CMO026746 under deed 07/1943. Other than our responsibility to the Australian Customs and Border Protection Service, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.