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8 February 2012

Mr Geoffrey Gleeson  
Director, Operations 3  
International Trade Remedies Branch  
Australian Customs and Border Protection Service  
Customs House  
5 Constitution Avenue  
CANBERRA ACT 2601

### Public File

Dear Mr Gleeson

### **Structural Timber exported from Austria, Canada, Czech Republic, Estonia, Germany, Lithuania, Sweden and the USA – Comments re Stora Enso Lithuania Exporter Visit Report**

Following the recent release of the Stora Enso Lithuania Exporter Visit Report (the Report), the Applicant<sup>1</sup> companies involved in the above inquiry have reviewed the Preliminary Report.

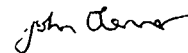
A review of the Report has identified a range of items that it is considered require review by the Expert consultants appointed by Customs and Border Protection for the structural timber inquiry. The items are contained in the attached document.

The Applicants' understand that the verification of costs is a complex and a time intensive task. In the event you or the Expert consultants require any assistance with the interpretation of the attached document, Mr Tim Sherry of CHH Woodproducts Australia Pty Ltd is available to assist you. Mr Sherry can be contacted on (03) 9258 2600.

Finally, the Applicants have embarked on reviews of the currently available exporter visit reports and will provide comments as soon as practicable. Subject to these reports (and others to be released) the Applicants may comment further on the Stora Enso Lithuania Report.

If you have any questions concerning this submission please contact me on (07) 3342 1921.

Yours sincerely



John O'Connor  
Director

Cc Mr Tim Sherry, CHH Woodproducts Australia  
Ms Christine Briggs, Gunns Timber Products  
Mr Chris Robertson, Hyne and Sons

<sup>1</sup> Building Supplies Group Holding Pty Ltd, Hyne & Sons Pty Ltd, Gunns Limited.

**Applicants' comments on Stora Enso Lithuania Exporter Visit Report****1.0 Executive Summary**

C&BP has preliminarily determined that Stora Enso's exports of structural timber from Lithuania were at non-dumped levels during the 1 July 2010 to 30 June 2011 investigation period.

The Applicants<sup>1</sup> have reviewed C&BP's Exporter Visit Report for Stora Enso's Lietuva (SEL) UAB, Alytus Sawmill, Lithuania. SEL initially indicated that it sold like goods domestically to what it exported to Australia. C&BP established that the "identical" goods were in fact labelled B Grade structural timber, and concluded that the goods were not identical but "alike". However, in confirming that there were sufficient sales of like goods on SEL's domestic market for normal value purposes C&BP, in discussions with SEL, could not arrive at a basis for a specification adjustment to enable fair comparison between the like goods sold domestically and the goods exported to Australia.

Following discussions with SEL, C&BP determined:

*"...we consider that the normal value of the goods exported to Australia cannot be ascertained using domestic sales by reason of the lack of information to enable adjustments to be made for differences in respect of goods that are not identical goods".*

The Applicants' submit a specification adjustment is possible based upon properly verified CTM&S for the GUC and the domestic selling price(s) for like goods sold by SEL.

In the absence of domestic sales of identical products from another seller on the domestic market in Lithuania, C&BP determined normal values for SEL on the basis of the company's Cost To Make and Sell ("CTM&S") under s.269TAC(2)(c) of the Customs Act.

C&BP verified SEL's costs from "cost centres for each process of producing timber" as follows:

- Raw material handling;
- Sawing, small and sawing large;
- Power plant boiler;
- Kilning;
- Planing
- Opticutting;
- Finger jointing;
- Storage material out;
- Other common production costs;
- Maintenance cost centre; and
- Administration.

A brief description of included costs – redacted from Public File version – was also identified. Costs were recorded per m<sup>3</sup> for each process (sorting, sawing, kilning, etc) although it is not clear as to the consistency of units of measure across all stages of production.

The Applicants have analysed C&BP's documented verification of SEL's CTM&S records as detailed in SEL's Exporter Visit Report (i.e. Section 9 of Report). The Applicants hold reservations concerning the following items:

- Verification of log input costs;
- Verification of log purchase prices from related parties and SOEs to validate whether they are representative of market selling prices;
- The correct allocation of costs to each stage of the structural timber manufacturing process;

<sup>1</sup> Building Supplies Group Holding Pty Ltd (BSG), Hyne & Sons Pty Ltd, and Gunns Limited.

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- An absence of references to log yields and site yields to permit validation of claimed credits for revenues generated from sales of timber by-products;

The SEL Exporter Visit Report appears to have verified the costs allocated on a "whole of site" basis, but has not considered how these costs should be allocated to different products.

## 2.0 Global Benchmark Report<sup>2</sup>

The Global Benchmark Report for 2010 indicates that an equivalent cost estimate in Lithuania for timber ex mill was US\$xxxxx per m<sup>3</sup> on a total site basis (i.e. includes recovery benefit on less processed material). The same report indicated an EBITDA margin being achieved by local mills in addition to costs of US\$xxxxx/m<sup>3</sup>.

Without making any adjustments for manufacturing process costs associated with the production of MGP, it would be seem unlikely that SEL achieved an MPG cost of \$Axxxxx<sup>2</sup> including profit when fibre alone is estimated to cost \$USxxx/m<sup>3</sup> in the Benchmark Report (*key assumption*: xx% conversion rate) and the World Resource Quarterly tracked fibre in Lithuania at a substantially higher rate (\$USxxx/xxx/xxx m<sup>3</sup> in Q3'10/Q4'10/Q1'11 respectively).

The Applicants' modelling suggests MGP production is likely to incur a grade adjustment penalty using the benchmark report data of at least \$Axx/m<sup>3</sup> in addition to the approx \$xxxm<sup>3</sup> whole of site production cost. It is the Applicants' contention that C&BP-verified SEL data understates the ex Mill position for MGP grades exported to Australia.

<sup>2</sup> Global Timber/Sawmill/Lumber Cost Benchmarking Report .

<sup>3</sup> Calculated from ABS weighted average export price for Lithuania for period, less minus 20.7 per cent dumping margin .

### 3.0 Cost Modelling – MGP Structural Timber

3.1 A constructed selling price for MGP Grade Structural Timber in Lithuania based on Global Benchmark Report data is as follows:

(based upon 2010 costs; Average Exchange Rate US\$:A\$ 0.91)

Fibre (\$USxxxx @ xx%)	xxxxx	Benchmark rpt – Whole of site avg
Residues (\$US)	(xxxxx)	Benchmark report
Conversion Costs (\$US)	xxxxx	Benchmark rpt – <u>Whole of site avg.</u>
		(Based on KD85%; Planed 60%)
Depreciation (\$US)	xxxxx	Benchmark report
Avg. Moulded Cost (\$US)	xxxxx	Whole of site (Benchmark Report)
MGP Grossed up Conversion adj (\$US)	<u>xxxxx</u>	Modelling for mfr'ed grade
		(\$Axxxx); maybe higher
MGP Moulded Cost (\$US)	xxxxx	
Implied Customs adjustment	<u>(xxxxx)</u>	Different to Benchmark ie \$USxxx-\$xxx
Ex Works (\$US)	xxxxx	<u>Excludes Corporate charges</u>
Ex Works (\$A)	<u>xxxxx</u>	Avg cost adj applied, <u>no interest/profit</u>
Freight to Australia (\$A)	<u>115.00</u>	ABS data
	xxxxx	
Duty 5% (\$A)	<u>xxxxx</u>	Based on ABS
On Wharf (\$A)	xxxxx	
Off Wharf to WHS (\$A)	xxxxx	Modelling
WHS Cost (\$A)	xxxxx	Modelled Minimum
Delivery to Customer (\$A)	<u>xxxxx</u>	Modelled Metro rate
Std Cost before S,G&A, int & profit (\$A)	xxxxx	
SG&A (\$A)	<u>xxxxx</u>	Modelled ex [source] Report
Std Cost before interest (\$A)	<u>xxxxx</u>	<u>No profit assumed domestically</u>

Therefore the calculated conversion cost in addition to fibre above is \$Axxxxx/m<sup>3</sup> (\$USxxxxx/m<sup>3</sup> – i.e. conversion cost + depreciation + MGP Grossed-Up Conversion).

**It is the Applicant's view that SEL does not have a conversion cost below \$USxxxxx/m<sup>3</sup> as is suggested by C&BP's finding.**

### 3.2 Conclusions

C&BP's verification is vulnerable in the following key areas:

- (i) Fibre cost;
- (ii) Residue costs (i.e. residue credits); and
- (iii) Conversion costs (including yield calculations, allocation of overheads and loss associated with the sale of B Grade product).

#### 4.0 Comments/Issues with SEL Exporter Visit Report

##### 4.1 Related party transactions

Stora Enso's adjusted EBIT margin in 2010 was xxxx%, therefore will be lower after interest and tax. Were the dumping margin correct, it would suggest that domestic products are being sold at a significant negative margin (which is unlikely since there are multiple players who only sell domestically/close proximity of mill) or that the margin on exports is being significantly overstated.

One of the key assumptions in the SEL Report is that related party sales between the Stora Enso entities (whether it be purchasing or selling) have been determined as "arms length".

The Applicants contend that the SEL mill is a cost centre, not a business and its profitability and decisions will be extensively influenced by the SE Wood Products head office and other Stora Enso subsidiaries. By definition, its major cost inputs and sales will not be determined at arm's length, but will be influenced by what delivers the best financial outcome for the company overall.

The location of the meeting and limited representation by mill staff also points to the integrated/related nature of the businesses.

The Applicants assert that the relationships between the related parties will influence the relevant price. Some of the key transactions are discussed below:

##### 4.1.2 Fibre Cost

- The major supply of fibre to this mill is via a related party that sits under the SE Wood Products (SEWP) head office. This supplier may also position itself between the mill and its residue customers;
- SE appear to influence prices and supply of fibre and residues via SE Wood Supply and the extent to which they are involved in the price setting and allocation of fibre and residues to different mills warrants further review.

##### 4.1.3 Domestic sales to related distributor

SEL is a mill that produces timber products. Finished product sales are conducted by a related party that operates under a transfer price arrangement. SEL would appear to operate without direct selling authority and should not be considered as arms-length. The Applicants contend:

- SEL wholly owns the distribution company Puumerkki UAB, which appears to be a major domestic customer of SEL. The extent to which transfer pricing is governed by corporate policy as opposed set locally needs to be understood;
- The Report does not discuss whether prices are achieved by SE Wood on external sales are higher than achieved from inter-group, and this would again point to related parties.

#### 4.1.4 Export sales to Australia

Given the contention that SE Timber Australia and SEL are related parties, the export price should be based upon a deductive export price methodology (as it is considered the price is affected by the relationship).

The Applicants strongly challenge C&BP's assessment that the sales between SEL (exporter) and Stora Enso Australia (the importer) are arms length. The sales cannot be considered "arms length" as:

- The Australian customer of the SEL mill is a related party that is a wholly owned subsidiary of SE Wood Products;
- Stora Enso Australia promotes the related nature of the Group;  
<http://www.marketplace.com.au/advertiser/2194/javascript:void>
- This mill is one of at least 5 SE mills supplying Australia – it is most unlikely that [*selling arm would permit a*] bidding process between its mills for the same parcel of work. How did C&BP "test" the supply arrangements between 5 mills and Stora Enso Australia?
  - The stated ordering process in the Lithuania report is inconsistent with those noted in Austria and Sweden. In this report they identify product demand being placed on the mills not the reverse;
- The freight costs for the SEL mill are likely negotiated by SE Wood Products, or at an overall group level. Commercial shipping documentation is also likely to be done off-site;
- A spot dealing structure outlined is not common in industry or broader. Common practice is to set an ongoing price that's subject to periodic renegotiation (ie not order by order), particularly when involved in a related supply position. Spot pricing and supply involves the seeking of supply from a range of entities, commonly unrelated. It is the Applicants' contention that the supply to Stora Australia is through an integrated supply chain being managed centrally in Europe and associated production being allocated to the sawmills with the highest margin outcomes for the business;
- There is an absence of comment as to whether the question was put to Stora Enso Finland HQ (or other parts of the Group outside SEL) on the provision of trading support to Stora Enso Australia or any of its customers.

## 4.2 Raw Material Costs

The substantiation of the fibre cost is a central element of verification of SEL's CTM&S for the GUC. This area warrants close scrutiny via Expert review.

### 4.2.1 Material Costs - Fibre

- C&BP appear to have undertaken limited evaluation of log prices and failed to benchmark against published indices to establish bona fides of prices in the GUC CTMS;
- Whilst it is noted that the SE forestry business is profitable, there is no discussion in the report on the transaction between related companies in as much that:
  - Does the related company sell to completely independent entities at the same rate as internal sales (Would also point to question SE Wood and mill not being independent).
- Given the significance of fibre as an input cost, there is a need to look at the market price carefully since the dumping margin estimate suggests prices below market as identified in the Application and Global Benchmark report. For instance:
  - Lithuania borders Poland, Belarus, Latvia and Russia. By water, a cheaper transport method, the closest other countries are Norway, Estonia, Germany and Finland. Information on the log supply prices and residue chip income is available from World Resources Quarterly (WRQ) for these countries
    - Latvian timber harvesting was inferred to be unsustainable in WRQ and Lithuania was not a reported destination for Latvian timber.
    - In WRQ Polish saw logs were selling at US\$xxx per m3 which after transport would not provide a large saving over the Applicants' Anti-Dumping CTMS calculations or Global Benchmark log price for Lithuania.
    - Swedish saw logs in WRQ were reported as selling at US\$xxx per m3 in Q12011
    - North West Russian timber is cheaper than Sweden but is more remote by land. The cheaper price of US\$xxx per m3 for logs reflects the distance from markets. Lithuania is not noted as a destination for Russian saw log.
- The visit report discusses at length the required quality of the Australian MGP product and the fact that it exceeds local requirements. Logs required to meet the MGP spec are function of fibre quality, taper and size and likely to attract a premium over a standard saw log providing lower yield. It appears the CTMS is based on an average basket cost rather than true reflection of fibre and handling costs of merchandised log required to meet the grade requirements - ie targeted log. Further, the cost to make could have been a constructed price based on a non-representative low cost log.
  - In the cost to make calculation there is the potential for cheaper classes of logs to be included in the log cost bundle because the raw fibre meets some narrow structural strength characteristic without regards for all the other appearance, handling and rot resistance characteristics that are necessary to sell structural timber in the Australian market understate the true fibre cost
  - As pointed out to C&BP previously, there are distinctly different price points associated with different sourcing strategies and cost to handle through the manufacturing process as opposed to running an average cost calculation e.g. whole trees or controlled billet classes.
- The visit report is silent on the extent to which xxxxxxxx may explain difference (e.g. support state forests);
- C&BP noted that SEL provided a spreadsheet of log purchases by country quantity and price. However, there appears to be no review of log selection and merchandising for GUC or



production to identify origin/country. Where SEL's sourcing pattern for MGP is not representative of the average pattern, a distortion in transport cost used to establish cost to manufacture will result.

- No calculation appears to have been done that compares the whole-of-site recovery with individual manufacturing yields on domestic products vs export products. This issue needs to be addressed via Expert Review and would leave C&BP better positioned to assess the *reliability* of the data provided and subsequent conversation regarding the processing of small log.
- Income from the sale of the pulp log and roundwood should be removed from the fibre cost of manufacture for structural timber as these products are not associated with structural manufacturing and sell for prices below saw log prices.
- How did C&BP assess the adequacy of the SE Wood Supply overhead charge for procurement services beyond the reconciliation of the GL account?
  - *Wood Supply Baltic has altogether 124 people working in Estonia, Latvia, Lithuania and Belarus (Source: Company website)*

#### 4.2.2 Material Costs – Residues

- It is incorrect to include in residue credits for logs chipped or sold by-passing the manufacturing process. The possible overstatement of residue credits lowering net wood costs requires Expert Review. The proportion of logs that are chipped should not be viewed as commercially sensitive information and should be stated.
- Similar to fibre, residue sales have not been benchmarked to establish the possibility of over-crediting. For example:
  - Related sales to Russia appear to be local prices plus freight. The benchmark report suggests Russia residues are priced well below what's achieved in Lithuania;
  - To what extent is SE Wood Supply involved in the price setting?
  - For each stream of residue sales it needs to be understood whether they are ex mill or delivered
- There is no discussion on the allocating of costs associated with selling the residues that would result in a lower net income is presented.
- C&BP note the presence of power plant however have not discussed the extent of external sales of power. Specifically, what materials are actually being consumed and how do SEL charge themselves for residues used in the generation of electricity? Residues values need to reflect published market prices and not be at an inflated rate that results in the transfer of profits from electricity generation back to sawn timber.

#### 4.3 Conversion Costs (i.e. sawing, kilning, planing, etc)

The isolation of the costs associated with the GUC should reflect the requirements of the product both in terms of processes and properties.

##### 4.3.1 Process Costs (including Conversion costs)

###### **Sawing**

- The Report is silent on the UOM used in the calculation of the CTM&S. In the conversion process the reviewer should understand how the recovery through planing has been

[calculated/] (i.e. noted the input and output unit of measures, e.g. sawn/nominal/actual cubic metres with each stage of the process).

- Expert Review is required to validate how the cost of the raw material has been grossed up to account for the recovery loss (direct & indirect associated costs);
- The small log recovery gain noted by C&BP in the report is counter to international mill experience, including that of the Applicants. Using small logs for the GUC is unlikely to achieve the Benchmark Report yield rate of xxxx%, whilst incurring additional processing cost above site averages, particularly when producing MGP structural planed timber with tighter specification. Reduced yield has significant impact on CTMS for GUC.
  - Yield Impacts from processing smaller log will commonly result in recoveries losses. in excess of xxxxx% when compared with a site average yield.
  - Modelling supplied in xxxxxx Confidential Attachment 1 supports this position and critically highlights the need for C&BP to both end to end cost by product as opposed to averages.
- Separate to yield, conversion cost penalties from processing smaller log also result. Saw milling is a linear process and the breaking down of small logs results in far fewer pieces being processed for the same machine time as a large log. Reduced conversion efficiency has significant impact on CTMS for GUC.
  - Conversion penalty is likely to be up to 20 per cent when compared with average costing through the same machine centres.
- The extent to which the manufacturing process for GUC results in co-products of low value and a resultant loss on sale of co-product needs to be applied to the raw material costs of the GUC. This process is **absent** from C&BP in its consideration (or discussion) of co-product costs.

#### **Other Process Costs**

- The approach documented in the Visit Report appears to represent an averaging of cost through the process despite there being significant sales of non-planed and possibly undried product. Discussion on allocation of overheads to machines centres (ie: from start or at end) is absent from the report
  - For example, are overheads being allocated more heavily to the start of the process than they are to the latter stages? This has the effect of distributing costs heavily to local sales and the same time understating the manufacturing costs of the GUC.
- Expert Review is required into the methodology for costing of raw materials and associated costs through each stage of the manufacturing processes, as the Visit Report does not appear to utilize an appropriate methodology.
- No manufacturing yield calculated for MGP and compared back to whole of site is a significant omission in the verification process.
  - Grade loss – The Applicants based their submission on the knowledge that SEL achieves a high grade outturn based on fibre quality available to them. However the grading standards associated with the GUC will result in greater grade loss than would be normal for domestic product. This grade loss needs to be specifically accounted for in the evaluation of the GUC and reinforces the need for end-to-end product cost as opposed to working site averages;
  - Does a small log provide sufficient fibre for the quantity of GUC supplied to Australia – this includes an **assessment of any wide board GUC** product (ie> 120mm) from this mill. If not, costings will need to be adjusted further for higher priced fibre in the end-to-end product cost;
- The Report remains silent on maintenance costs, adequacy and the extent of provisions/capitalising in what may be a heavily depreciated plant (i.e. the age of the facility is key). If depreciation is minimal then this points to likelihood of higher maintenance costs and lower yields based on plant capability (ie: older technology). Expert Review is required to

assess the adequacy of the maintenance charges used in the CTMS and linkage to yield and processing cost as result of utilising aged equipment.

- There appears to be no independent validation of wage costs and labour rates.
- External Sawn procurement (Section 5.2) - there may be significant purchases of sawn lumber which is then processed through the plant for value add or sold directly through the distribution business. If sawn material is purchased for processing, is the full cost of that sawn material included in the cost to make and sell calculation and has the lesser production of sawn waste been properly accounted for.
- External Sawn procurement (Section 5.2) – to what extent is the product purchased requiring further processing associated with the production of FJ material. Material sourced in this manner for FJ production needs to be excluded from the end-to-end manufacturing costs of solid MGP production as it is unlikely to of suitable properties and consequently will be procured at significant discounts to structural timber unduly weighing down the CTMS.
- Opticut cost exclusion needs review by the Review Experts. If it is being used to recovery dock and achieve both Structural/GUC plus finger-jointing feedstock, then the costs can't be excluded. Equally if the opticut also being used to produce precision docked stud lengths, costs can't be excluded. If the opticut is positioned on site in a such manner to only fault dock shooks (i.e. feedstock) for FJ material then its cost should accounted for in the CTMS of FJ material.
- Packaging costs (6.6) – Is domestic production fully wrapped to the same specification as export materials? If not, for example some domestic product sold unwrapped, this would need to be excluded from the allocation of packaging costs including associated labour to the GUC CTMS.
  - Export product is both wrapped and containerised. Domestic product in some instances might just be strapped and/or possibly wrapped with a lower grade packaging material than that used for export. CTMS for the GUC must include costs associated with exporting to Australia.
- FJ and Solid MGP needed to be costed separately as the FJ material incurs significant additional cost that needs to be recovered through selling prices both ex Mill and in Australia – costs substantially higher than the magnitude of the un-dumped margin calculation of C&BP.

#### 4.4 Delivery costs - Freight ex Mill

- It is noted there appears to be no reference to demurrage costs incurred on Australian destined orders being allocated back to the CTMS.
- The report remains silent on the adequacy of any information associated with the dispatch costs incurred in the mill for export sale. A failure to visit the plant may result in lack of clear understanding on the process cost provided.
- No analysis is presented to warrant using the same cost for export and domestic packaging.

#### 4.5 Administrative & Other Manufacturing Costs

- The Applicants remain concerned about the extent to which SG&A costs are being allocated to domestic sales.
- How SE's central Sales & Marketing function is reflected in the CTM&S the GUC needs to be considered in Expert Review?
- Section 10.1 - this section suggests that one set of management fees are being excluded, but it's not clear why. Interest charges of a cost-centre's bank account do not necessarily reflect the true interest costs of running the business. The treatment of working capital funding is of particular concern here – both for log in and product out.

#### 4.6 Profit

- No profit has been applied on FJ product;
- Dumping margins calculated suggest only minimal profit assessed in MGP, benchmark report suggests domestic producers making xx% in CY2010 – however C&BP appears have applied a margin of less than xx.
- The margin on domestic sales through a related party may need to be considered (ie: not arms length).

#### 4.7 Domestic Selling Prices Ex-mill

- The average price approach based on actual sales suggests lack of critical analysis to identify products identified as unprofitable to the mill being made in a subsequent period, possibly at a lower price. Why would SEL go from being unprofitable from one day to profitable the next, particularly as prices fell over the investigation period?
- The statements in Section 6.3 re export sales process are inconsistent with the findings that after allowing a profit for the sale of structural timber to Australia there was a further negative margin of 20.7%.
- Does the mill differentiate selling prices for H2 feedstock, is there any averaging effect in ASP consequently booked to say a treatment cost centre? Is there additional support for H2 costs.
- Again domestic sales appear heavily weighted to a related party, unclear to the extent to which losses are/could be left in the distribution company;
- Although C&BP have "found no evidence" to suggest support via SEL, it is unclear whether question put about whether Stora Enso HQ or related entity beyond SEL provides any support to Stora Enso Australia was tabled and answered.
- Sales of B grade material in Australia by Stora Enso are at prices substantially below that achieved on MGP10 or better rated production. The differential gap on in-market selling prices exceeds the noted preliminary un-dumped margin.
- Sales of F5 graded structural material in Australia by Stora Enso are at prices substantially below that achieved on MGP10 or better rated production. The differential gap on in-market selling prices exceeds the noted preliminary un-dumped margin.
- Sales of finger-joint structural studs in Australia by Stora Enso are commonly at the prevailing prices achieved on solid MGP10 rated production and do not reflect the sizeable additional costs incurred in their manufacture.

#### 4.8 Other general concerns:

- The visit was conducted in a remote country (Estonia) therefore removing the opportunity for C&BP to independently verify staff numbers, operating modes, asset age and integrity. This lack of first hand exposure fundamentally limits C&BP's ability to 'test' the basis of cost allocations for the Lithuanian business entities;
- Report is silent on the handling of H2 treated product or product destined for H2 treatment restricting Applicants ability to comment;
- Units of measure (UOM) at each stage of process are not identified. This creates the opportunity for incorrect calculations. The UOM should be detailed at each step of process.
- The actual exchange rates used to convert back to AUD across the investigation period are omitted;
- A sizeable quantity of production is for domestic consumption and is of a lesser standard than the MGP under consideration. The visit report provides only limited understanding in areas such as quality standards, log requirements/merchandising and the extent to which the product is subject to Kiln drying and planing. The Expert Review requires a clear understanding of the products and associated manufacturing requirements to form a view on the appropriateness of any cost averaging used.
- If product it is not planed, it will not meet the market requirements in Australia, will not have incurred the production costs and cannot reasonably be bundled into the CTMS as planed structural timber for the Australian market.
- Other common production costs may include costs that relate specifically to the MGP GUC, and if included in a "common" category and allocated across all site production, will result in a lowering of the CTM&S for the MGP GUC.

#### 5.0 Conclusions

The SEL Exporter Visit Report does not disclose key costing methodologies for each stage of the MGP production process. The Applicants have raised concerns for each production cost stage. The Expert Review needs to express an independent view as to the appropriateness (allocation methodology, and whether understatement may have occurred) of the costs provided by SEL.

The Applicants note that following the receipt of Exporter Questionnaire responses, C&BP advised exporters that average costing for the GUC would not be accepted. Whilst it is evident that SEL has revised its CTM&S for the GUC, the Applicants have formed the view from the examination of SEL's Exporter Visit Report that the verified CTM&S for the GUC remains understated. The Applicants anticipate that the Expert Review enable a fair assessment as to whether costs for the MGP GUC have been appropriately allocated.