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5 March 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

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Dear Mr Gleeson

**Structural Timber exported from Austria, Canada, Czech Republic, Estonia, Germany, Lithuania, Sweden and the USA – Comments re Egger Sagewerk Briton GmbH Exporter Visit Report**

I refer to the Egger Sagewerk Briton GmbH Exporter Visit Report recently placed on the electronic Public File.

The Applicants have reviewed the report. The attached submission addresses the Applicants' concerns with the report.

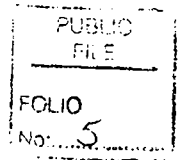
It is understood that the verification of costs is a complex and a time intensive task. In the event you or the Expert consultants require any assistance with the interpretation of the attached document, Mr Tim Sherry of CHH Woodproducts Australia Pty Ltd is available to assist you. Mr Sherry can be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

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



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**Applicants' comments on Egger Sagewerk Brilon GmbH Exporter Visit Report**

1.0 Executive Summary

C&BP has preliminarily determined that exports of structural timber from Germany by Egger Sagewerk Brilon GmbH ("Egger") were at non-dumped levels during the 1 July 2010 to 30 June 2011 investigation period, with a margin of negative 4.43 per cent.

The Applicants<sup>1</sup> have reviewed C&BP's Egger Exporter Visit Report. It is noted that C&BP determined that Egger sold goods domestically that whilst not being identical, possessed characteristics closely resembling the goods under consideration ("GUC") and exported to Australia. However, C&BP further determined that there was an insufficient volume of domestic sales of like goods made in the ordinary course of trade and normal values for Egger could not be determined under s.269TAC(1) of the Customs Act.

C&BP therefore determined normal values for Egger on the basis of the company's Cost To Make and Sell ("CTM&S") the GUC under s.269TAC(2)(c) of the Customs Act.

C&BP was provided with quarterly cost to make and sell values "that were the averages of monthly costs to make and sell". The quarterly CTM&S had been prepared by Egger on the basis of simple averages and C&BP recalculated the quarterly CTM&S on weighted averages.

Egger indicated it allocated costs on the basis of the following profit centres:

- Log sorting;
- Sawmill;
- Drying chamber;
- Planing line;

Costs for each centre were allocated on the basis of the volume of timber processed by that profit centre. Green and rough sawn timber therefore, had a different cost to planed/dressed timber.

Costs were calculated on a cumulative basis, taking account of the production volume needed to produce the output at each stage, as well as taking account of the costs of each stage. A worksheet providing the unit values and cumulative calculations for the following costs by month of FY 2011 was provided:

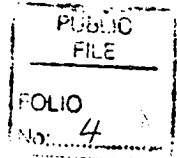
- Log costs;
- Proceeds of by-products;
- Variable manufacturing costs;
- Labor costs;
- *unstated* manufacturing costs;
- Dispatch; and
- Other costs.

The Applicants do not consider that the "average" monthly costs verified by C&BP accurately reflect the true costs of production of the GUC. Whilst it is suggested by Egger that the profit centres reflect the costs associated with each stage of the production process, reservations are evident with an absent of discussion concerning:

- Log yields for the GUC versus overall site yields (taking account that the exported goods involve additional manufacturing processes to green and rough sawn timber sold domestically);
- Losses for logs that are not the equivalent of the GUC and the subsequent grossing up of the GUC for the next production stage; and

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



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- The absence of references to log yields and site yields does not permit validation of claimed credits for revenues generated from sales of timber by-products;
- Average planning costs including rough sawn kiln dried packaging costs; and
- Absent of losses from the reject structural product attributable to the GUC.

The Eggers Exporter Visit Report (as with certain Stora Enso Exporter Visit Reports) appears not fully considered how log yields, timber losses, and grossing up for the GUC, impact the CTM&S the GUCs.

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**2.0 Comments re Egger Exporter Visit Report****2.1 Raw Material Costs**

The Report indicates that C&BP verified Egger's log purchase costs. It would appear that the log purchase prices are adequately linked to audited accounts. The issue that required scrutiny that appears absent is the actual log yields and losses for the materials used in the GUC.

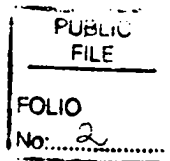
The substantiation of the *true* log cost or the GUC requires Expert Review.

**2.1.1 Material Costs - Fibre**

- The visit report indicates that spruce timber is used in the manufacture of goods sold domestically and for export. The Report also discussed the standards to which domestic structural timber is produced, as well as the exported GUC. However, the report indicates that "unit price was not affected by the dimensions, length or cross-sectional area of the timber product"
  - 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 highlighted in responses to other Exporter Visit Reports, the diameter of the log directly impacts the yield and timber losses associated with producing the GUC – this has not been tested by C&BP;
  - 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 for which the Report is silent on e.g. whole trees or controlled billet classes.
- No calculation appears to have been undertaken 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.

**2.1.2 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. Residue sales are credited to reduce the overall cost of the particular production stage - there is no discussion as to whether this is reasonable and whether the credits taken at the particular stage represent only the volume of production that passes to the next production phase;



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## 2.2 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.

### 2.2.1 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).
- As the Report is silent on actual logs used for the GUC and the extent to which they are non representative of the site average, the Applicants are fundamentally restricted from commenting on the appropriateness of the cost associated with sawing in the CTM&S. For example if Egger is using smaller logs for the GUC, this is likely to raise the CTM&S for the GUC based on lower yield and high conversion cost - reduced yield has significant impact on CTMS for GUC. Expert review of the actual log used for the GUC is warranted in the Applicants views.
  - Modeling supplied in xxxxxx Confidential Attachment 1 supports this position and critically highlights the need for C&BP to conduct 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 xx 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**

- Depreciation - By allocating the depreciation to the sections based on revenue the depreciation understates the CTM&S. It would be more appropriate for the depreciation cost of each centre to be included in the production cost passed through to the next centre. The depreciation cost in kiln dried and planed timber is significantly higher than the average depreciation cost across the whole production and the CTM&S should be adjusted accordingly.
- Export product is both wrapped and **containerised**. Domestic product in some instances xxxxx xxxx 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.
- The Report remains silent on maintenance costs, adequacy and the extent of provisions/capitalizing. Expert Review is required to assess the adequacy of the maintenance charges used in the CTM&S.

### 2.2.2 Administrative & Other Manufacturing Costs

- Egger allocates S,G&A costs on the basis of production costs. The Report indicates C&BP's preferred approach to allocation based on revenue, however, on the basis of examining the admin expense allocated to planed/dressed timber, C&BP was satisfied with the Egger approach

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- o Using production costs via stage would suggest that a higher percentage of the S,G&A costs are allocated to goods other than the GUC – this would appear to understate the costs allocated to the GUC;
- o Site costs (land) appear to have been included on an average cost basis rather than on activity basis. The allocation should be adjusted in the CTM&S.
- It is unclear that Group charges are reflected in the CTM&S for the GUC and requires clarification.

2.2.3 Profit

- No profit has been applied on the CTM&S the GUC by Egger due to an insufficient volume of sales of like goods in the ordinary course of trade by Egger over the investigation period;
- In the Vaagen Exporter Visit Report, C&BP used *all sales* of like goods made from the sawn species of timber and sold domestically to determine a level of profit
  - o C&BP should have similarly considered all of Egger's domestic sales of timber made from the same species (i.e. spruce) to assess a level of profit to apply to Egger's CTM&C the GUC;
  - o Egger's argument that the domestic sales are not like goods should be rejected consistent with the findings in other Exporter Visit Reports.

3.3 Other general concerns

- 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.
- A sizeable proportion 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" costs may include costs that relate specifically to the MGP GUC, and if included in a "other" category and allocated across all site production, will result in a lowering of the CTM&S for the MGP GUC.

4.0 Conclusions

The Egger Exporter Visit Report does not sufficiently disclose whether the costing methodologies for each stage of the MGP production process accurately apply costs to the exported GUC. 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 Egger.

The Applicants have formed the view from the examination of the Egger 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.