



Australian Government
**Australian Customs and
Border Protection Service**



STRUCTURAL TIMBER FROM EIGHT COUNTRIES

Record of Meeting – Hyne & Sons Pty Ltd and Carter Holt Harvey

Date and Time: 01 March 2012, 10:30am – 2:30pm

Participants:

Justin Wickes
National Manager (Operations),
Customs and Border Protection

Geoff Gleeson
Director Operations 3
Customs and Border Protection

Mick Kenna
Manager, Operations 3
Customs and Border Protection

Rebecca Higgins
Supervisor, Operations 3
Customs and Border Protection

Tony Morse
Timber Industry Consultant, engaged by Customs and Border Protection referred to in this record of meeting as the 'industry expert'

Tim Sherry
Marketing and Pricing Manager
Carter Holt Harvey

Chris Robertson
General Manager Structural Softwood QLD
Hyne & Sons Pty Ltd

John O'Connor
Consultant
John O'Connor & Associates Pty Ltd

Discussed:

At the outset of the meeting industry representatives outlined that a major concern for industry in reviewing the Exporter Visit Reports was the calculation of costs. Customs and Border Protection indicated that in its view disparities with the information submitted by industry in its application and that verified at exporter visits related more to export prices.

Procedural

- Process for responding to the enquiries/concerns raised in the responses to the Visit reports
 - Industry representatives queried how issues being raised in submissions in response to the Exporter Visit Reports on the electronic public record were being treated and or responded to.
 - Customs and Border Protection assured the industry representatives that all submissions were being examined by Customs and Border Protection. However, Customs and Border Protection was not in a position to respond to all points of these submissions individually. Issues raised by submissions may be addressed in the Statement of Essential Facts (SEF).
- Have the Experts had access to and reviewing the responses to the Visit reports?
 - Industry representatives expressed concern that there was limited opportunity for their submissions to the Exporter Visit Reports, to be considered by the industry experts.
 - The industry expert present at the meeting explained that they received the industry submission on the Lithuania Exporter Visit Report only, and had a chance to review this report one day prior to concluding their review. The industry expert indicated that the points raised in the submission were understood and all points raised had already been covered in its review.
- Identification of UOM through each step of the process.
 - The industry expert confirmed that his observation of the verification reports was that the appropriate units of measure were used at all stages in formulating unit costs.

Content

Fibre & Residues

- Representative log - Extent to which the typical log used to make the GUC and associated recovery were identified.
 - Industry representatives asked how Customs and Border Protection had identified the type of log used for the production of goods under consideration by exporters in its exporter verification. Industry representatives explain that in their view varying species and size of log affected yield and prices.
 - Customs and Border Protection stated that its verification includes an assessment of whether exporters' costs are in accordance with the generally accepted accounting principles of the country of export, and an assessment of whether the costs submitted reasonably reflect competitive market costs associated with the production or manufacture of like goods. In this context, Custom and Border Protection advised that it had accepted the exporters' practice of what might be described as log-cost averaging and that this approach was consistent with that adopted in verification of the cost data for Australian manufacturers of structural timber. Customs and Border Protection confirmed that it was not in possession of information that would allow for any more precise assignment of exporters' costs to the particular goods that were exported to Australia, nor was it requested.

- Industry representatives questioned log prices and if or how these were benchmarked.
 - The industry representative at the meeting explained that in his review of Customs and Border Protection findings as outlined in the Exporter Visit Reports was largely consistent with the Benchmarking Report.
 - Customs and Border Protection stated that where related party transactions were involved for raw material supply, these were benchmarked against prices of raw materials from unrelated suppliers where possible.
- Extent to which fibre is a dedicated log for GUC
 - Industry representatives expressed concern that the data collected by Customs and Border Protection does not accurately reflect the cost of producing timber to the MGP standard (i.e. the goods under consideration (GUC)).
 - Industry representatives explained that their production is focused on MGP products, while for exporters in most, if not all cases, only a small proportion of the production is for the MGP grade, and it was their expectation that costs for production of the goods under consideration (GUC) would be teased out from the bundle of products produced.
 - Customs and Border Protection stated that this expectation to tease out costs for the GUC and grades was not made clear at the outset of the investigation, and that essentially the same approach to the verification of industry data was taken with exporters. Customs and Border Protection further advised that legislative parameters require exporters' records to be used when in line with the generally accepted accounting principles of the country concerned and such that they reasonably reflect the costs of the goods in question, which it considers exporters have done in this case. Customs and Border Protection advised they had not sought to seek product specific costing information from the exporters for the purpose of the investigation. The applicants equated this with standard costing information.
 - Removal of fibre not associated with the sawn timber process
 - Industry representatives were concerned that additional losses in yield associated with the production of MGP product (from dressing, trimming and grading), were not captured.
 - The industry expert explained that his view of Customs and Border Protection methodology was that production based costs were calculated based on the volume of goods produced in each process.
 - Customs and Border Protection explained further that for each process the GUC went through, the average cost of the process was allocated to the GUC. To attempt to create costs as if the exporter only produced MGP product was to create hypothetical cost without first establishing that the exporter costs are unreasonable. No subsequent attempt to establish product specific variations in costs for GUC was undertaken.
 - Industry representatives stated that to their knowledge most of the exporters were very sophisticated companies that could produce work order and activity based reports to calculate cost of producing MGP product in particular. Industry representatives indicated that it was their assumption that Customs and Border Protection verification would go to this level of detail.

- Customs and Border Protection stated that it was not their belief that exporters visited were able to readily break down their costs to this level of detail. Customs and Border Protection reiterated that the Australian industry had not itself provided product costing in this detail, nor had Customs and Border Protection asked for it.
- Residue selling price – benchmarking
 - The industry expert responded that the information verified from exporters by Customs and Border Protection largely reflected the benchmarking data in respect of residues prices.
- Residues – How transport was treated/backed out of the credit sum
 - Industry representatives noted that for some exporter's sales of residuals appeared to be at particularly high prices, being affected by high freight costs for sales to related entity(s) in other countries. Industry representatives sought to establish the basis upon which sales of residues were accounted at i.e. FOB or ex-mill and made specific reference to sales ex Lithuania to Russia noted in the visit report.
- Residues accounting - credits being taken only at the particular stage they occur (including associated stage volume of production) before passing to the next production phase.
 - Industry representatives questioned the methodology used to account for residues. Industry representatives asserted that the correct way to account for recovery losses is at the point that it was generated; otherwise the losses will be understated.
 - Customs and Border Protection stated that generally as the goods under consideration went through every production process, losses could be netted off at the end.

Processing Cost

- Allocation of cost to process based on representative log and yield – Grossing up for dimension loss along the manufacturing chain
 - Customs and Border Protection explained that the processes of planing, kiln-drying, finger-jointing and treatment would have its own average costing that would be assigned directly to only those products that had undergone those processes, including the goods exported to Australia.
 - Industry representatives asserted that within the planing cost centre, a wide variety of timber products are dressed such as some structural and appearance grade products. Dressing did not extend to dry sawn packaging grades and sought understanding how this has been addressed in identification of product actually planed. Industry representatives further asserted that MGP is difficult to produce because of subtle differences and grading requirements that increase costs, and simple averaging of the planing costs is not sufficient to identify these additional costs for goods under consideration.
- Adjustment process to average processing costs when smaller logs used – Yield and process cost
 - Industry representatives stated that small logs have lower recoveries and high conversion costs and these were not captured in the Exporter Visit Reports.

- Customs and Border Protection asked the industry representatives whether they believed that yield loss was sufficient to outweigh the lower log cost from small logs?
- Industry representatives stated that it was their belief that the yield losses from small logs would offset the lower log cost of the smaller logs.
- Industry representatives stated that the logs mix would fundamentally alter costs.
- Customs and Border Protection suggested it was unreasonable to require exporters to identify costs down to the actual log mix used to produce MGP, rather than an average and therefore did not request any supporting information. Customs and Border Protection indicated that it was not convinced the exporters' approach of log-cost averaging was unreasonable and thus had not tested whether this approach was consistent or inconsistent with industry practice.
- Identification of maintenance cost and allocation
 - The industry expert, confirmed that depreciation and maintenance costs were applied to individual cost centres, not as a bucket at the end.
 - Customs and Border Protection explained that selling, general and administrative costs are allocated at the end, typically based on revenue or volume.
- Allocation of fixed costs into process stages
 - Industry representatives asked how unusual maintenance costs or major shut downs were accounted for, either as capital or operating expenses?
 - Customs and Border Protection stated that it accepted how the exporters accounted for these expenses, in accordance with its accepted accounting principles of the country concerned. Therefore, Customs and Border Protection sought to ensure that some portion of all relevant overhead expenses shown in income statements were allocated on a reasonable basis to the goods in question.
- Trimming and end docking – identification of requirements of and accounting for GUC
 - Industry representative referred to the Lithuania Exporter Visits report, and stated that the end docking cost was ruled out, and questioned this.
 - Customs and Border Protection asked for the precise reference in the report. As this could not be found in the meeting, Customs and Border Protection stated that they would look into this.
- Packing cost – identification of export costs
 - Customs and Border Protection confirmed that differences in packaging and containerising for export product to Australia would generally be considered an exportation cost and where appropriate, normal values would contain an adjustment to ensure fair comparison with export prices. No methodology advised for determining appropriate offered.
- Realised loss on B Grade/Reject/utility – allocation to GUC
 - Industry representatives questioned the treatment of cost of B grade products and losses that arise. Industry representatives stated that given the disaggregation nature of sawmilling, these products are not targeted but are inextricably linked with the production of the GUC. Therefore the losses arising on B grade product should be written back to the GUC.

- Customs and Border Protection considered this was unreasonable given its understanding that all exporters visited (and Australian industry members visited) appeared to treat such products as joint products or co-products (rather than as by-products) for cost accounting purposes. In this case, Customs and Border Protection had accepted that costs and sales for B grade products are accounted for separately and are not used to adjust the cost basis for the prime product.
- Treatment of H2 costs – averaged across production or added on separately
 - Industry representatives asked whether treatment costs were averaged over all production.
 - Customs and Border Protection confirmed that treatment costs were averaged over only the volume of treated product

General Costs/Other

- Finance cost – consistent allocation of finance charge
 - Customs and Border Protection advised that where finance charges (including interest expenses) were incurred by an exporter and shown in its income statement it was routine practice for such charges to be allocated to the goods in question on some reasonable basis. Therefore if centrally financed and interest accounted for centrally in say a treasury function, no allocation of finance charges occurred.
- Corporate charges - Consistent identification and allocation
 - Industry representatives questioned whether all exporters' corporate charges had been accounted for.
 - Customs and Border Protection stated that the specifics of corporate charges were confidential. The industry expert assured industry that to the extent of their review all relevant corporate charges were captured.
- Profit allowance – consistent methodology
 - Customs and Border Protection explained the legislative provisions governing the determination of profit for the purposes of a constructed normal value first requires that we consider, if reasonably possible, working out the amount relating to the production and sale of like goods by the exporter in the ordinary course of trade. Where this is not possible, Customs and Border Protection will consider (i) profits realised by the exporter in domestic sales of the same general category of goods, (ii) profits from other exporters in domestic sales of like goods; or (iii) any other reasonable method.
 - Customs and Border Protection advised that a submission on the level of profit to be applied would be useful.

Selling Prices

- Identification of average selling prices for different grades (Utility/B Grade, F5, F7/F8, FJ)
 - Customs and Border Protection advised that the dumping margin is a weighted average for the product as a whole, not a margin attributed to each model.

- Price period - Given prices fell across the year, how was Q4 of the investigation period reviewed against the average for the year?

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- Customs and Border Protection stated that the dumping margin calculations are a weighted average of the year, having observed appropriate period matching (generally quarter by quarter). Customs and Border Protection explained that as part of its cost verification it may chose one or more quarters, usually the last quarter before the auditing of accounts, and from this data conduct completeness, relevance and accuracy checks. Where Customs and Border Protection is satisfied that the quarterly data is reasonably complete, relevant and accurate it will then rely on the data for the whole period in undertaking its assessment.