



Australian Government
Australian Customs and
Border Protection Service

R E P O R T

TRADE MEASURES BRANCH

CONSIDERATION REPORT NO. 156

APPLICATION FOR A DUMPING DUTY NOTICE

CERTAIN PLYWOOD

EXPORTED FROM

**BRAZIL, CHILE, THE PEOPLE'S REPUBLIC OF CHINA
AND MALAYSIA**

December 2009

1 Contents

1	Contents.....	2
2	Abbreviations & shortened forms.....	3
3	Summary and recommendations.....	4
3.1	Recommendations	4
3.2	Application of law to facts.....	4
4	Background.....	6
4.1	Application.....	6
4.2	Consideration of the application.....	6
5	Compliance with section 269TB(4).....	8
5.1	Legislative framework	8
5.2	Customs and Border Protection assessment.....	8
6	Is there an Australian industry in respect of like goods?	10
6.1	Legislative framework	10
6.2	The goods the subject of the application	10
6.3	Locally produced like goods.....	11
6.4	Manufactured in Australia	12
6.5	Australian market	13
6.6	Australian industry information.....	17
7	Reasonable grounds – dumping.....	19
7.1	Legislative framework	19
7.2	General.....	19
7.3	Export prices	19
7.4	Normal values	20
7.5	Dumping margins	24
8	Reasonable grounds – material injury caused by dumped imports.....	26
8.1	Legislative framework	26
8.2	General.....	26
8.3	Volume effects	26
8.4	Price effects	27
8.5	Profit effects	29
8.6	Other injury factors.....	30
8.7	Link between injury and dumped imports	30
8.8	Conclusion on material injury caused by dumped imports	34
9	Conclusion	35

2 Abbreviations & shortened forms

ABS	Australian Bureau of Statistics
ACDN	Australian Customs Dumping Notice
Austral	Austral Plywoods Pty Ltd
Boral	Boral Plywood
BRG	Big River Group Pty Ltd
Brown Wood Panels	Brown Wood Panels Pty Ltd
China	the People's Republic of China
CEO	Chief Executive Officer
CHH	Carter Holt Harvey Woodproducts Australia Pty Ltd
Customs and Border Protection	Australian Customs and Border Protection Service
FOB	free-on board
m ³	cubic metre
MDLC	mill door log cost
plywood	certain plywood as defined in section 6.2
relevant Minister	in this case the Attorney-General

3 Summary and recommendations

This report provides the results of Australian Customs and Border Protection Service's (Customs and Border Protection) consideration of an application for the publication of a dumping duty notice on certain plywood¹ (plywood) exported to Australia from Brazil, Chile, the People's Republic of China (China) and Malaysia.

3.1 Recommendations

Customs and Border Protection recommends that the Chief Executive Officer of Customs and Border Protection (CEO) decide not to reject the application.

If the CEO accepts this recommendation, to give effect to that decision, the CEO must publish the attached notice at **Appendix A** indicating that Customs and Border Protection will inquire into whether the grounds exist to publish a dumping duty notice.

3.2 Application of law to facts

Division 2 of Part XVB of the *Customs Act 1901*² sets out procedures for considering an application for a dumping duty notice.

3.2.1 The role of the Trade Measures Branch

The Trade Measures Branch is responsible for preparing a report for the CEO examining an application for a dumping duty notice.

In this report, the following matters are to be considered in relation to the application:

- whether the application complies with subsection 269TB(4);
- whether there is, or is likely to be established, an Australian industry in respect of like goods; and
- whether there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application.

3.2.2 The role of the CEO of Customs and Border Protection

The Division empowers the CEO, after having regard to the Trade Measures Branch report, to reject or not reject an application for the publication of a dumping duty notice.

If the CEO decides not to reject the application, the CEO must give public notice of the decision providing details of the investigation.

¹ Refer to the full description of the goods in section 6.2 of this report.

² All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901*.

The CEO's powers have been delegated to certain officers of the Trade Measures Branch.

3.2.3 Findings and conclusions

Customs and Border Protection has examined the application for the publication of a dumping duty notice for plywood exported to Australia from Brazil, Chile, China and Malaysia.

Customs and Border Protection is satisfied that:

- the application complies with the requirements of subsection 269TB(4) (the reasons for being satisfied are set out in section 5 of this report);
- there is, or is likely to be established, an Australian industry in respect of like goods (as set out in section 6 of this report); and
- there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application (as set out in sections 7 and 8 of this report).

4 Background

4.1 Application

On 26 October 2009, Allen Taylor and Company, trading as Boral Plywood (Boral)³, Carter Holt Harvey Woodproducts Australia Pty Ltd (CHH) and Big River Group Pty Ltd (BRG) lodged an application requesting that the relevant Minister (in this case the Attorney-General) publish a dumping duty notice in respect of plywood exported to Australia from Brazil, Chile, China and Malaysia.

On 9, 11, 19 and 20 November 2009, the applicants provided further information in support of their application. As a result, Customs and Border Protection restarted the 20 day period for considering the application.

The applicants allege that the Australian industry has suffered material injury caused by plywood exported to Australia from the nominated countries at dumped prices. The applicants claim that material injury commenced in 2007. They are aware that dumped imports from the nominated countries were evident in the Australian market prior to 2007, but claim that the market share held by these imports was 29% in 2006-07, increased to 33% in 2007-08 and further increased to 36% in 2008-09. The application identified injurious effects as:

- reduced sales volume;
- reduced market share;
- price undercutting;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced production volume;
- reduced revenue;
- reduced employment;
- deteriorating returns on investment; and
- reduced attractiveness to reinvest.

4.2 Consideration of the application

Under s. 269TC(1) the CEO must examine the application and within 20 days of lodgement, decide whether or not to reject the application. This decision must be made no later than 10 December 2009.

Subsection 269TC(1) specifies that the CEO shall reject the application if he/she is not satisfied that:

- the application complies with s 269TB(4); or
- there is, or is likely to be established, an Australian industry in respect of like goods; or

³ The business is a division of Boral Limited, a publicly listed Australian company.

- there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application.

The above matters are examined in the following sections of this report.

5 Compliance with section 269TB(4)

Customs and Border Protection is satisfied that the application complies with the requirements of section 269TB(4).

5.1 Legislative framework

Subsection 269TB(4) requires that the application must be in writing, be in an approved form, contain such information as the form requires, be signed in the manner indicated by the form and be supported by a sufficient part of the Australian industry.

5.2 Customs and Border Protection assessment

5.2.1 Approved form

The application is in writing, is in an approved form, contains such information as the form requires (as discussed in the following sections) and is signed in the manner indicated in the form.

The applicant submitted confidential and public record versions of the application. Numerous appendices and attachments were also submitted. Customs and Border Protection considers that the public record version of the application contains sufficient detail to allow a reasonable understanding of the substance of the information.

5.2.2 Supported by Australian industry

An application is taken to be supported by a sufficient part of the Australian industry if Customs and Border Protection is satisfied the persons who produce or manufacture like goods in Australia and who support the application:

- account for more than 50% of the total production or manufacture of like goods by that proportion of the Australian industry that has expressed either support for or opposition to, the application; and
- account for not less than 25% of the total production or manufacture of like goods in Australia.

The application identified the following Australian producers of plywood:

- Boral;
- CHH;
- BRG;
- Austral Plywoods Pty Ltd (Austral); and
- Brown Wood Panels Pty Ltd (Brown Wood Panels).

Boral, CHH and BRG are the applicants. Both Austral and Brown Wood Panels provided letters stating that they support the application. Data provided in the application indicates that Boral, CHH and BRG account for the majority of Australian production of plywood. Based on the evidence provided, Customs and Border

Protection considers the application is supported by a sufficient part of the Australian industry.

5.2.3 Conclusion – Compliance with s. 269TB(4)

Based on the information submitted by the applicant, Customs and Border Protection considers that the application complies with s. 269TB(4).

6 Is there an Australian industry in respect of like goods?

Customs and Border Protection is satisfied that there is an Australian industry in respect of like goods.

6.1 Legislative framework

Subsection 269TC(1) requires that the CEO must reject an application for a dumping duty notice if, inter alia, he is not satisfied that there is, or is likely to be established, an Australian industry in respect of like goods.

6.2 The goods the subject of the application

The goods the subject of the application are described as follows.

The goods the subject of this application are certain plywood sheeting, of conifer and non-conifer species, in various widths and grades ranging from high quality appearance structurally-certified grades with minimal imperfections, through to non-structural non-appearance grades to which no manufacturing standard applies.

Overlaid plywood with a thickness of less than 7 mm, and plywood with an interior glueline, are specifically excluded from the goods the subject of the application.

6.2.1 Additional information

The application provided the following additional information and examples to help clarify the description of the goods.

Plywood is a wood based panel which offers good mechanical strength and is lightweight. Plywood consists of sheets of wood veneer which are glued together. The sheets of veneer are glued in a cross-grain manner to enhance strength and stability.

Imported grades of plywood which compete directly with the locally produced plywood grades covered by the application include products such as bracing ply, flooring ply, formply (6 foot and 8 foot lengths), CD structural ply and DD structural ply.

A brief description of plywood examples covered by this application follows.

Bracing ply – used in house construction to brace the timber frame by providing ‘racking’ resistance from strong wind. Typically available in a range of lengths of approximately 2400/2745/3050mm, width of approximately 900/1200mm, and thickness of approximately 4mm to 7mm. AS/NZS 2269 applies to plywood used in bracing ply applications.

Flooring ply – available in a broad range of thicknesses, is suitable for most flooring applications. Typically available in sheet sizes of approximately 2400/2700mm x 1200mm, and thicknesses of approximately 12, 15, 17, 19, 21 and 25 mm, with a veneer grade CD finish. AS/NZS 2269 applies to plywood used in flooring applications.

Formply – applications include formwork for construction in buildings. Recommended that formply complies with AS/NZS 6669, however, it is known that some imports do not comply. Sizes typically include approximately 1800 x 1200mm (6ft) and approximately 2400 x 1200mm (8ft), with a range of thicknesses of approximately 12, 17, 18, 19 and 25mm.

Structural – the most common form of plywood used in load-bearing applications (AS/NZS 2269 applies). A substantial volume of imports are used in non-load bearing, general purpose applications (which do not necessarily comply with AS/NZ 2269). Typically available in sheets of approximately 2400 x 1200mm and 2700 x 1200mm, and thicknesses including 7, 9, 10, 12, 15, 17, 18, 19, 21, and 25mm, with a CD or DD veneer grade finish.

6.2.2 Tariff classification

The application states that the goods are classified to the following tariff subheadings and statistical codes of Schedule 3 to the *Customs Tariff Act 1995*:

- 4412.31.00 (statistical codes 16, 50, 51 and 60);
- 4412.32.00 (statistical codes 18, 52, 53 and 61); and
- 4412.39.00 (statistical codes 22, 30, 31 and 40).

Imports under tariff subheadings 4412.31.00 (statistical codes 15 and 20), 4412.32.00 (statistical codes 17 and 21); and 4412.39.00 (statistical code 23) are not the goods the subject of the application.

Based on information provided in the application, Customs and Border Protection's Trade Services Branch confirmed that the goods are correctly classified to these tariff subheadings.

Prior to 1 January 2007 the goods were classified to tariff subheadings 4412.13.00 (statistical codes 30, 32, 36, 38 and 39), 4412.14.00 (statistical codes 40, 42, 46, 48 and 49) and 4412.19.00 (statistical codes 50, 62, 63 and 64).

The general rate of duty is currently 5%. Plywood imported from Chile has been free under the Australia-Chile free trade agreement since 6 March 2009. Prior to this date the general rate of duty applied. The general rate applies to all plywood imported from Brazil, China and Malaysia.

Customs and Border Protection notes that no tariff concession orders apply to the goods.

6.3 Locally produced like goods

Subsection 269T(1) defines like goods as 'goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration'.

6.3.1 Applicants' claims

The applicants claim that plywood manufactured by the Australian industry possesses characteristics closely resembling the goods exported from Brazil, Chile, China and Malaysia. They claim that:

- imported and locally produced plywood are classified to the same tariff sub-headings;
- imported and locally produced plywood are made from similar raw material timber;
- imported and locally produced plywood are manufactured using similar manufacturing processes and techniques;
- imported plywood from the nominated countries competes directly with locally produced plywood;
- imported plywood is sold into the same market segments and through the same distribution channels as locally produced plywood;
- imported and locally produced plywood have been present in the Australian market over the period covered by this application; and
- locally produced plywood is being substituted by imported plywood demonstrating that the products are interchangeable in identified end use applications.

6.3.2 Customs and Border Protection's assessment

Customs and Border Protection has examined the evidence presented in the application and considers the Australian industry produces like goods to the goods the subject of the application.

Customs and Border Protection considers that the applicants have demonstrated that the primary physical characteristic of imported and locally produced plywood is that they are made from thin sheets of wood, called plies or wood veneers, that are glued together so that adjacent plies have their grain at right angles to each other for greater strength.

Customs and Border Protection considers that the applicants have demonstrated that imported and locally produced plywood are commercially alike as they are sold through the same distribution channels to common end users.

Customs and Border Protection considers that the applicants have demonstrated that imported and locally produced plywood are functionally alike as they have the same end-uses.

6.4 Manufactured in Australia

Subsections 269T(2) and 269T(3) specify that for goods to be regarded as being produced in Australia, they must be wholly or partly manufactured in Australia. In order for the goods to be considered as partly manufactured in Australia, at least one substantial process in the manufacture of the goods must be carried out in Australia.

6.4.1 Australian industry

Details of the Australian industry's manufacturing sites are as follows:

Industry member	Production site
Boral	Ipswich, Qld
CHH	Myrtleford, Vic
BRG	Grafton & Wagga Wagga, NSW
Austral	Tennyson, Qld
Brown Wood Panels	Camden Park, SA

6.4.2 Manufacturing process

The applicants stated that plywood is an engineered wood panel. They stated that production commences with the veneer manufacturing process. Thin layers of wood called veneers are peeled from logs from which the bark has been removed. The log is placed into a lathe and as the veneer knife slices through the wood fibre, the spinning log becomes a veneer ribbon.

The applicants stated that the veneer ribbon is clipped into selected widths and sorted into loads by width and moisture content. The veneer is then dried to a pre-determined moisture content. The drying process stabilises the veneer dimension, strengthens the fibres, and prepares the wood for gluing. The veneer is next sorted by width and grade (such as CC and DD) and spliced if it needs repair. The veneers are then prepared for gluing and pressing into plywood. The gluing of the veneers is undertaken at right angles to each other. As wood is weak in one direction but strong in the other, the resultant sheet is usually stronger than the original piece of timber.

The applicants stated that after pressing, the plywood is finished and packed for delivery. Formply plywood includes a face for appearance purposes. The face is an overlaid resin impregnated paper.

6.4.3 Conclusion

Based on the above descriptions of the manufacturing process, Customs and Border Protection is satisfied that there is at least one substantial process of manufacture performed in Australia and, therefore, that the goods may be taken to have been produced in Australia.

6.5 Australian market

6.5.1 Background

The applicants stated that imported and locally produced plywood is used in many applications. However, end use applications can be primarily separated into two key categories:

- plywood used directly in construction activity; and
- plywood used in a of range re-manufacturing, re-use, industrial, and general purpose applications.

The applicants stated that construction-based applications include:

- formply, used for the forming of concrete; and
- a range of other plywood used for wall bracing, wall cladding, internal feature wall applications, ceiling linings, roof linings, structural flooring, flooring substrate and hoardings.

The applicants stated that in all cases where various plywood products are used in construction, structural integrity is essential, and various Australian Standards apply to their uses.

The applicants stated that other applications for plywood can be many and varied. Some of these uses require high structural rating and integrity while for other applications this is less important. Some uses include:

- cabinet and joinery applications such as cupboards, tables, furniture and boxes;
- industrial uses such as floors in truck bodies, buses and horse floats;
- staging, hire and temporary applications such as walkways, marquee flooring and temporary grandstands;
- lower grade uses such as for boxing, crate manufacture, packaging for bulky goods and transport; and
- home handyman applications.

6.5.2 Marketing and distribution

The applicants stated that most plywood (domestically produced and imported) is distributed through plywood wholesalers in the Australian market. These wholesalers on-sell to either retailers such as hardware stores or direct to end-users such as builders.

The applicants stated that there may be different channels to market for the various end users of the product.

Formply:

- manufacturer – wholesaler – end user
- manufacturer – specialty distributor – end user
- importer – specialty distributor – end user
- importer – end user

Other construction plywoods:

- manufacturer – wholesaler – merchant (retailer) – end user
- manufacturer – merchant – end user
- importer – wholesaler – merchant – end user
- importer – merchant – end user
- importer – end user

General purpose plywood

- manufacturer – wholesaler – merchant – end user
- manufacturer – specialty distributor – merchant – end user
- manufacturer – specialty distributor – end user
- manufacturer – Wholesaler – end user
- importer – wholesaler – merchant – end user
- importer – wholesaler – specialty distributor – end user
- importer – specialty distributor – end user
- importer – end user

The applicant stated that for imported product, the importer effectively takes over the role of the manufacturer. Some larger end users will buy directly from importers in limited circumstances.

6.5.3 Market segmentation and demand variability

The applicants claim that there is no market segmentation by geography.

The applicants stated that there is very little seasonal volatility, other than in December and January where the construction sector largely closes down for the Christmas period. These two months typically account for a normal month's business.

The applicants claim that technology changes have only had a minimal impact on overall demand variability.

The applicants claim that government policy or regulation has an impact on demand in a range of ways:

- policy like infrastructure spending or long term nation building projects will impact on plywood demand;
- first home owner grants have a small indirect effect, as some plywood (albeit small volumes) are used in the new housing construction market;
- various environmental policies can indirectly affect demand - for example, the current Government's stance against imported timber products sourced from illegally harvested logs;
- changes or focus on various Australian Standards or building code changes can also impact demand; and
- the proposed Carbon Pollution Reduction Scheme may also impact demand by causing a lesser or greater cost impact on different products.

6.5.4 Alternative products

The applicants claim that there are substitutes in most cases. The following substitutes are provided by way of example:

- bracing ply – oriented strand board;
- formwork – steel;
- flooring – particle board, concrete slabs or timber and steel joists;
- wall cladding – bricks, concrete block, fibre cement sheeting or steel sheeting;

- wall lining – gyprock, fibre cement sheeting or brick;
- cabinetry – medium density fibreboard and particle board or solid timber;
- general purpose plywood – any sheet material that can be cut would be an alternative such as medium density fibreboard, particle board or fibre cement sheeting.

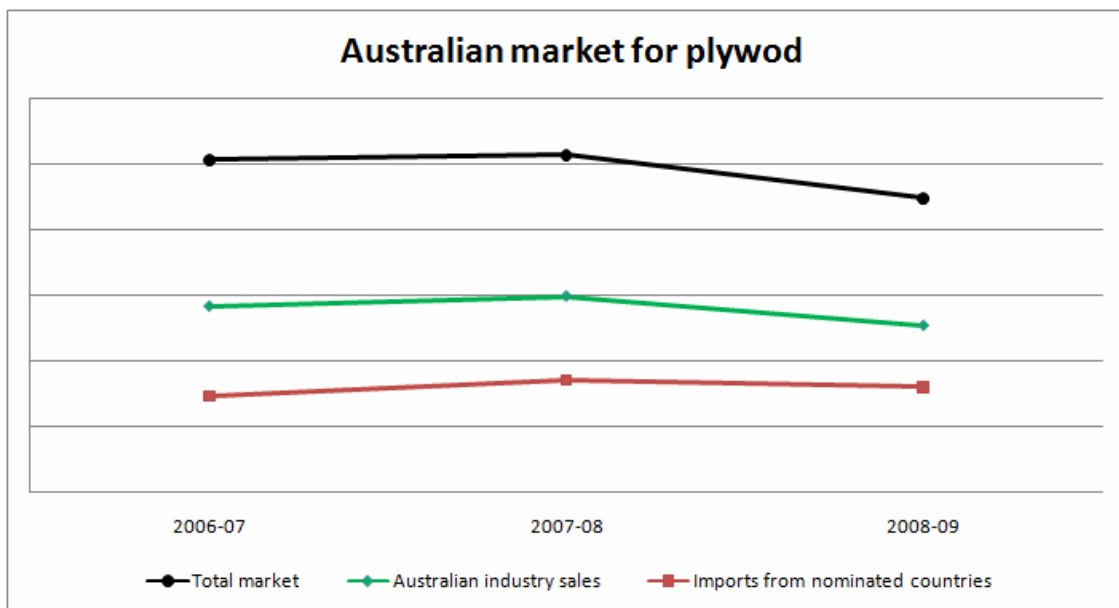
The applicants claim that in most instances plywood is the preferred product providing cost benefits and is the product of choice to identified substitutes due to entrenched building practices.

6.5.5 Market size

The applicants stated that overall market growth in the plywood industry has largely been in line with GDP and population growth at approximately 2% to 3% per annum over the last 10 years. However, the market fell in 2008-09 due to the global financial crisis.

They estimated the size of the Australian market using their sales (including sales of imports), estimates of sales by other Australian producers and estimates of sales of imports. Import data was sourced from the Australian Bureau of Statistics (ABS).

The applicants estimate of the market size is illustrated in the following chart.



The applicants claim that the general economic slowdown evident in 2009 impacted the total Australian market and sales by the Australian industry, but had less of an impact on imports from the nominated countries.

Customs and Border Protection estimated the size of the Australian market using information on sales by the Australian industry and import data from its commercial database. It considers that the applicants' estimate of the market size is reasonable.

6.6 Australian industry information

6.6.1 Australian industry's sales

The applicants provided information in the application, including a summary of domestic and export sales volumes, revenue, discounts and rebates as required in appendices A2, A3, A5 and A6. The applicants provided consolidated appendices A2 and A6 and separate appendices A3 and A5 for each applicant. Customs and Border Protection examined the detail in, and link between, these appendices, and considers they are reliable for the purposes of assessing the economic condition of the industry for the purposes of this report.

As required by Appendix A4, each applicant included a detailed listing of domestic sales of plywood. The period for which the information was provided varied for each applicant, but each provided data for the 2008-09 financial year.

Customs and Border Protection noted that some industry members supplied plywood to related distributors. The applicants claim the transfer prices were based on market prices and do not impact the assessment of injury. This issue will be further examined during the course of the investigation. Customs and Border Protection notes that the majority of sales by the applicants are to unrelated third parties.

6.6.2 General accounting/administration information

The applicants provided charts of accounts and audited financial reports for relevant periods. They also provided details of general accounting and administration information.

6.6.3 Cost information

Each applicant completed an appendix A6 for domestic sales of its own production and its export sales. The information provided included production and sales volumes, manufacturing costs, selling, distribution and administrative expenses and sales volumes from 2006 to June 2009. The information was provided for each grade of plywood manufactured by each of the applicants. The applicants also provided a consolidated appendix A6.

Customs and Border Protection examined the information provided and the link between other appendices and considers the information reliable for the purposes of assessing the economic condition of the industry.

6.6.4 Other economic factors

Each applicant completed an appendix A7 identifying assets, capital expenditure, research and development expenses, return on investment, capacity, capacity utilisation, productivity, cash flow measures and wages. The application included consolidated indices of revenue variations and employment numbers.

6.6.5 Conclusion – Australian industry

Based on the information in the application, Customs and Border Protection is satisfied that there is an Australian industry producing like goods to the goods the subject of the application and that the data contained in the application is sufficient for the purpose of a preliminary analysis of the economic condition of the industry since the beginning of calendar year 2006.

7 Reasonable grounds – dumping

Customs and Border Protection is satisfied that certain plywood appears to have been exported to Australia from Brazil, Chile, China and Malaysia at dumped prices.

7.1 Legislative framework

Subsection 269TC(1) requires that the CEO must reject an application for a dumping duty notice if, inter alia, he is not satisfied that there appear to be reasonable grounds for the publication of a dumping duty notice. Under section 269TG, one of the matters that the relevant Minister must be satisfied of to publish a dumping duty notice is that the export price of goods that have been exported to Australia is less than the normal value of those goods.

7.2 General

The applicants presented export price information for 2009 and normal value information for 2006, 2007, 2008 and 2009. They also presented information on producers of the goods exported to Australia and importers in Australia.

7.3 Export prices

The applicants obtained published import data for plywood from the ABS for plywood. They consider that the data are reliable for determining import volumes, but claim that the aggregation of data for a number of different types of plywood with different unit values results in the data being unsuitable for the calculation of dumping margins. The applicants have therefore calculated deductive export prices for the various categories of plywood.

Customs and Border Protection reviewed price lists provided by the applicants and noted that there was a significant variation in prices for different types of plywood. It is satisfied that the ABS data is unsuitable for the calculation of dumping margins.

7.3.1 Methodology for deductive export prices

The applicants have calculated deductive export prices for the various types of plywood imported from the nominated countries. They calculated free on board (FOB) export prices using prevailing selling prices obtained from competitive quotations offered by importers at the wholesale/distributor level of trade on the Australian market, less appropriate deductions. Where competitive quotations were provided for a single type only (such as structural CD ply), a comparable price was deduced for other types of plywood based on observed market variations.

The applicants used the following deductions in calculating FOB prices:

- a rate of profit of 5% for the importer;
- delivery charges of \$15 per m³;
- selling, general and administrative costs of 8% of the selling price;
- duty of 5%; and
- estimates for ocean freight, import clearance and handling charges.

Customs and Border Protection considers that these estimates are reasonable. It notes that the estimates for ocean freight, import clearance and handling charges were based on a detailed quote from an ocean freight provider and on advice from the procurement department of one of the applicants. Customs and Border Protection considers that the use of 5% profit rate is reasonable for the purposes of this estimate – any higher profit rate would yield a lower export price.

7.3.2 Summary

Article 5.2 of the World Trade Organisation Anti-Dumping Agreement states that an application shall include evidence of dumping. It states that simple assertion, unsubstantiated by relevant evidence, cannot be considered sufficient to meet this requirement, but such information must be reasonably available to the applicant.

Customs and Border Protection considers that, based on the information submitted in the application, the amounts used by the applicants to estimate selling prices in Australia and which is reasonably available to them appear to be reasonable. The applicants have supported their estimates with quotes from Australian importers. Customs and Border Protection notes that observed market variations used to estimate selling prices for other types of plywood were also supported by quotes from Australian importers or costs used in the construction of normal values.

The applicants’ assessment of export prices (in \$A/m³) are summarised in the following table.

Category	Brazil	Chile	China	Malaysia
Bracing ply	200	309	352	638
Flooring ply	288	396	439	580
Formply 6ft	515	559	602	837
Formply 8ft	515	559	602	809
Structural CD	200	309	352	557
Structural DD	200	309	352	557

7.4 Normal values

The applicants stated that they were unable to obtain pricing information for plywood sold on the domestic market of any of the nominated countries. They claimed that plywood selling prices in other countries are not published or readily available via newsletter or industry publication. The applicants therefore constructed domestic selling prices based on their estimates of costs and profit in each of the nominated countries.

7.4.1 Methodology for constructed normal values

For each of the nominated countries, the applicants provided:

- a cover sheet setting out the principles and assumptions upon which the cost estimates are based;

- annual cost build up spreadsheets for 2006 to 2009, providing a detailed breakdown of each cost element in the applicants' estimate of the fully absorbed cost to make and sell each type of plywood⁴;
- constructed normal value spreadsheets for each plywood type incorporating data from the cost build up spreadsheets and including a profit to estimate the domestic selling price in each country.

The domestic selling price estimates for 2009 were used in the applicants' calculation of dumping margins and therefore Customs and Border Protection focussed its assessment on these figures.

The cost build up spreadsheets provide details of the costs to produce and sell each plywood type in each country, incorporating the following elements:

1. Volume of finished plywood

The applicants estimated the annual sales volume using the simplifying assumption that all production from the plywood plant is of a particular type of plywood (such as braceply, formply or structural plywood).

2. Finished plywood recovery

This is the amount of finished plywood yield as a percentage of log intake. The applicants estimated the recovery percentages using detailed modelling and having regard to the veneer yield of one of the Australian industry members.

3. Log intake

The log intake is a function of the volume of finished plywood and the plywood recovery rate.

4. Overlay veneer purchased/used

For flooring and formply, the applicants included an amount of overlay veneer that would be required (based on an estimated thickness and total amount of plywood produced) and estimated the cost of that overlay.

5. Mill door log cost (MDLC)

The applicants have estimated the MDLC per cubic metre (m³) for each type of plywood for each of the nominated countries. The unit MDLC is applied to the estimated log intake to calculate the unit converted wood cost involved in producing the plywood.

For Brazil, the applicants estimated the MDLC for Brazilian manufacturers using an analysis commissioned by one of the Australian industry members. The analysis is somewhat dated but incorporates projections for pine plywood

⁴ The types of plywood covered are bracing, flooring, formply (6ft), formply (8ft), structural CD and structural DD.

stumpage pricing in subsequent years, including 2009. The applicants have used the 2009 conservative price estimate (the analysis also includes an optimistic projected price) as the basis for the Brazilian MDLC. Amounts were added to the stumpage price for 'cut and snig' costs and transportation to estimate the log costs to the mill door.

For Chile, the applicants used market intelligence of the pruned and unpruned log prices paid by plywood manufacturers in Chile and adjusted the ratios of each according to their estimate of what would be used for the various types of plywood.

For China, the applicants used the average price of logs exported from New Zealand to China to estimate the price of logs in China. According to information provided by the applicant, China imports a significant quantity of logs from New Zealand. The applicants estimated the mix of certain grades of logs that would be used in plywood production in China and adjusted the New Zealand export price to include ocean freight costs and inland freight and unloading expenses.

For Malaysia, the applicants' information on MDLCs is supported by information from an industry internet website.

6. Unit direct labour costs

The applicants estimated the number of personnel that would be required to operate a plant of the size used in its cost construction. It applied this figure to research undertaken into the prevailing average wage rates in each of the nominated countries to estimate the manufacturing labour cost per M³ of plywood produced.

7. Glue cost

The applicants estimated the glue usage per m³ of plywood produced and the cost of glue per tonne based on Australian glue prices adjusted for a lower rate for transport and distribution.

8. Extra variable costs for certain plywood types

In estimating the cost of flooring plywood, the applicants included the additional cost of the plastic pieces used in the tongue and groove arrangement. The applicants also incorporated the cost of the resin impregnated overlay used in the production of formply.

9. Manufacturing overheads, electricity and other materials.

The applicants estimated manufacturing overheads and other materials based on their knowledge of the industry and the overseas plants. The applicants researched electricity costs in each of the nominated countries as the basis for their estimates of the electricity costs per unit of plywood produced.

10. Freight costs

The applicants estimated freight costs in the country of export and port handling and bill of lading fees based on a quote provided by a logistics company relating to exports by one of the Australian industry members.

11. Selling, general and administrative costs

The applicants used a rate of selling, general and administrative costs which it claimed was appropriate to the industry.

12. Depreciation

The applicants estimated the capital investment in land, building and equipment associated with a plant producing the estimated volume of finished plywood and the useful life of the categories of assets. The applicants stated that values for depreciation were estimated from industry intelligence or information from company accounts.

13. Profit

The applicants applied a rate of profit of 10% which it claimed was at an appropriate level to cover debt and equity risk in the industry.

7.4.2 Adjustments

The applicants stated that the normal values have been determined at the FOB level (as were export prices). They do not consider that any adjustments are required.

7.4.3 Market situation

The applicants understand that the forestry and paper industry in China is an “encouraged” industry with its members entitled to certain government grants and taxation incentives and/or exemptions. In calculating normal values they have relied on Chinese market information, however, they stated in the application that they reserve the right to provide Customs and Border Protection with any additional information concerning the extent of any Chinese government influence on domestic plywood selling prices following commencement of a formal investigation.

In Customs and Border Protection’s view, the application does not contain sufficient information to warrant a formal assessment of market situation. The applicants will need to provide sufficient evidence of a market situation very early to allow Customs and Border Protection to undertake a market situation inquiry. Further, Customs and Border Protection will consider this issue if it finds any evidence of a market situation during the investigation.

7.4.4 Summary

As noted above, Article 5.2 of the World Trade Organisation Anti-Dumping Agreement states that an application shall include evidence of dumping. It states that simple assertion, unsubstantiated by relevant evidence, cannot be considered

sufficient to meet this requirement, but such information must be reasonably available to the applicant.

Customs and Border Protection considers that, based on the information submitted in the application, the amounts used by the applicants to estimate domestic selling prices in the nominated countries appear to be reasonable. The applicants have supported their detailed cost models with information that is reasonably available to them and, where assumptions have been required, have explained the basis for those assumptions. Where appropriate, the applicants have used information from their own production costs, if necessary, adjusted to make them appropriate to their understanding of industry conditions in the nominated countries.

Customs and Border Protection is also satisfied that, based on the information submitted in the application, no adjustments to domestic selling prices are required.

The applicants' assessment of normal values (in \$A/m³) are summarised in the following table.

Category	Brazil	Chile	China	Malaysia
Bracing ply	393	427	507	787
Flooring ply	468	521	585	877
Formply 6ft	598	642	737	1008
Formply 8ft	587	638	702	997
Structural CD	393	482	551	782
Structural DD	393	443	507	782

7.5 Dumping margins

The applicants' estimates of dumping margins as a percentage of export prices are summarised in the following table.

Category	Brazil	Chile	China	Malaysia
Bracing	96	38	44	23
Floorply	63	32	33	51
Formply 6ft	16	15	22	20
Formply 8ft	14	14	17	23
Structural CD	96	56	57	40
Structural DD	96	43	44	40

To check the sensitivity of the dumping margins, Customs and Border Protection recalculated normal values assuming zero profit and no depreciation charges. It recalculated export prices for Chile assuming zero duty in accordance with the Australia-Chile free trade agreement that came into effect on 6 March 2009. The revised dumping margins are:

- Brazil – minus 1% to 71% (average 42%);
- Chile – minus 7% to 29% (average 9%);
- China – 4% to 40% (average 21%); and
- Malaysia – 4% to 32% (average 16%).

Customs and Border Protection notes that when making the above assumptions, some types of plywood from Brazil and Chile were not dumped. However, a simple average of all dumping margins indicated that plywood from those countries was dumped and the dumping margin was not negligible.

Customs and Border Protection is satisfied that, based on the information submitted in the application, the applicants have demonstrated that there appear to be reasonable grounds for concluding that plywood has been exported from Brazil, Chile, China and Malaysia to Australia at dumped prices.

8 Reasonable grounds – material injury caused by dumped imports

Customs and Border Protection is satisfied that exports to Australia of certain plywood from Brazil, Chile, China and Malaysia at allegedly dumped prices appear to have caused material injury to the Australian industry.

8.1 Legislative framework

Subsection 269TC(1) requires that the CEO must reject an application for a dumping duty notice if, inter alia, he is not satisfied that there appear to be reasonable grounds for the publication of a dumping duty notice. Under section 269TG, one of the matters that the relevant Minister must be satisfied of to publish a dumping duty notice is that because of the dumping, material injury has been or is being caused or is threatened to the Australian industry producing like goods.

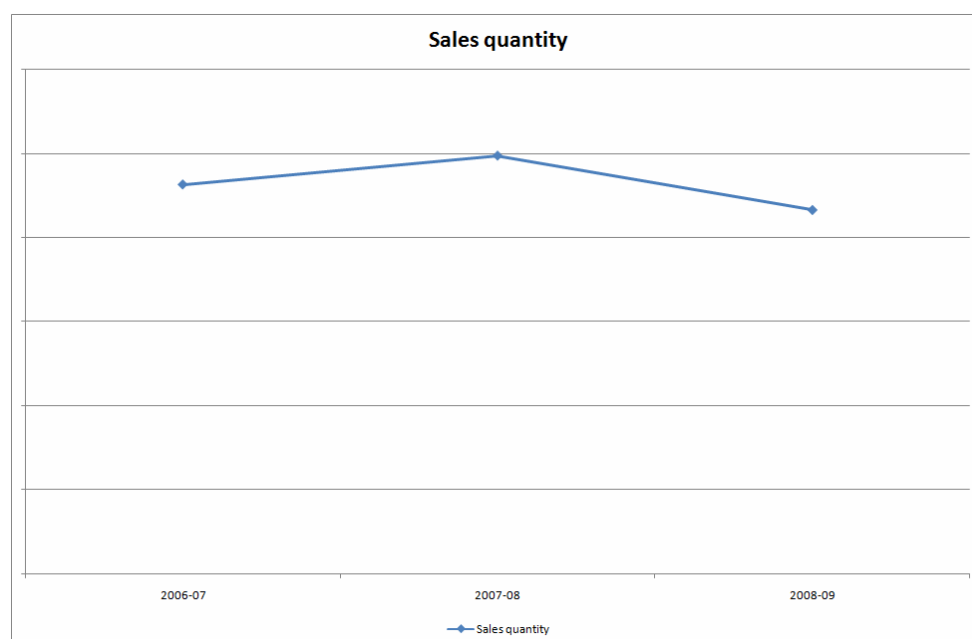
8.2 General

The injury analysis is based on the financial information submitted by the applicants. Customs and Border Protection notes that there are an additional two members of the Australian industry, but based on information provided in the application, domestic sales of the applicants own production accounted for about 90% of domestic sales by the Australian industry in 2008-09.

8.3 Volume effects

8.3.1 Sales volume

Movements in the applicants' sales volumes are illustrated in the following chart.



The applicants sales volume increased by about 7% in 2007-08 and fell by 15% in 2008-09.

8.3.2 Market share

The applicants increased their market share by two percentage points in 2007-08, but their market share fell by one percentage point in 2008-09.

8.3.3 Conclusion

Customs and Border Protection notes that, based on the information submitted in the application, the applicants' sales volume and market share have fallen. However, the fall in market share is very small and Customs and Border Protection does not consider it is a strong indicator of injury given fluctuations that normally occur.

8.4 Price effects

8.4.1 Price undercutting

The applicants provided quotations and price offers from Australian importers to indicate that prices for plywood from the nominated countries had undercut selling prices of the applicants and of imports from other countries. They stated that market offers for plywood imported from Brazil, Chile and China were at the lowest price levels. The applicants claim that Malaysian plywood is sourced from more expensive hardwood timbers, but the price differential for the finished ply does not reflect the higher cost of the timber used, with quotations for plywood sold in Australia at competitive levels with imports from Brazil, Chile and China.

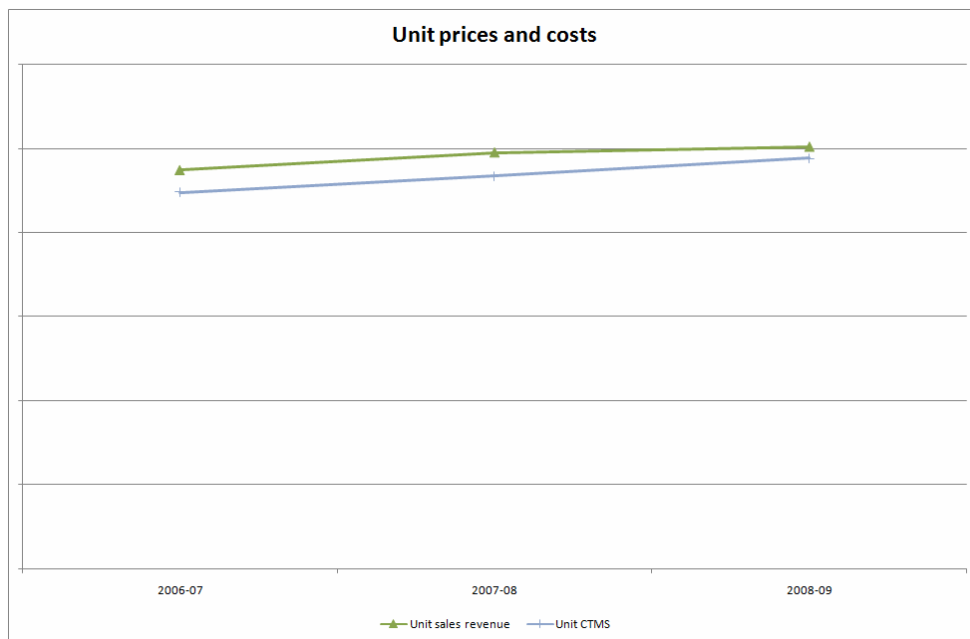
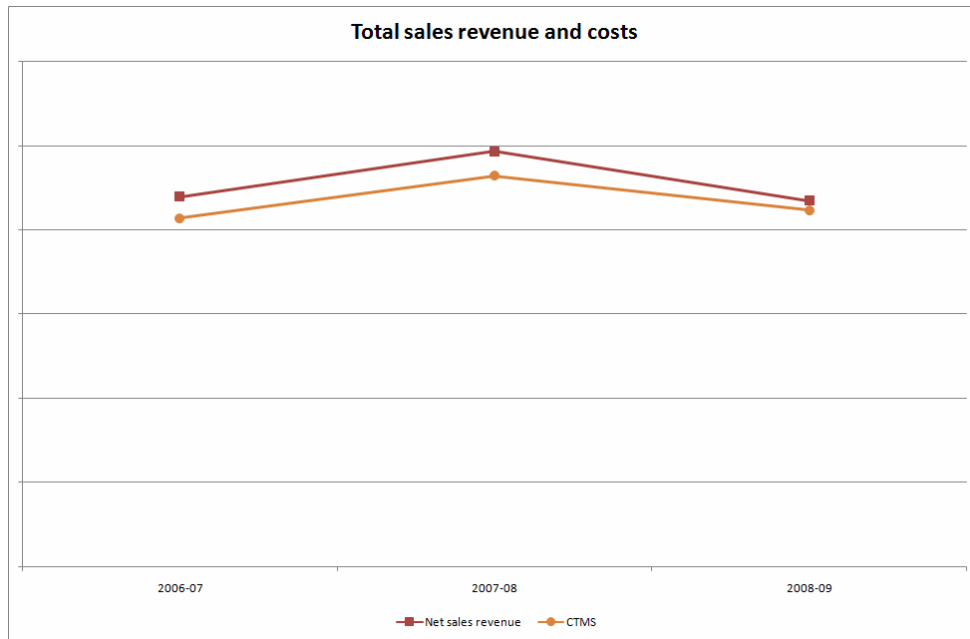
The applicants claim that prices of imported plywood have undercut their prices for structural plywood in 2009 by levels greater than 40% for Brazil, 25% for Chile, 30% for China and up to 18% for Malaysia. They claim the undercutting exceeds these levels for quotations received in October 2009.

Customs and Border Protection examined the information provided in the application and is satisfied that it indicates the price of plywood from the nominated countries undercut the applicants prices from 2006 to 2009. The level of undercutting was significant in 2009, but the evidence in respect of 2008 indicates not all prices for imported plywood undercut the applicants' prices.

8.4.2 Price depression and price suppression

Price depression occurs when a company, for some reason, lowers its prices. Price suppression occurs when price increases, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between revenues and costs.

Movements in the applicants' total sales revenue and costs and unit prices and costs are illustrated in the following charts.



Customs and Border Protection notes that total sales revenue and total costs increased in 2007-08 and fell in 2008-09. Unit prices and costs increased each year. Customs and Border Protection notes that when examined using calendar years, unit costs continued to increase in 2009, but unit prices fell slightly.

8.4.3 Conclusion

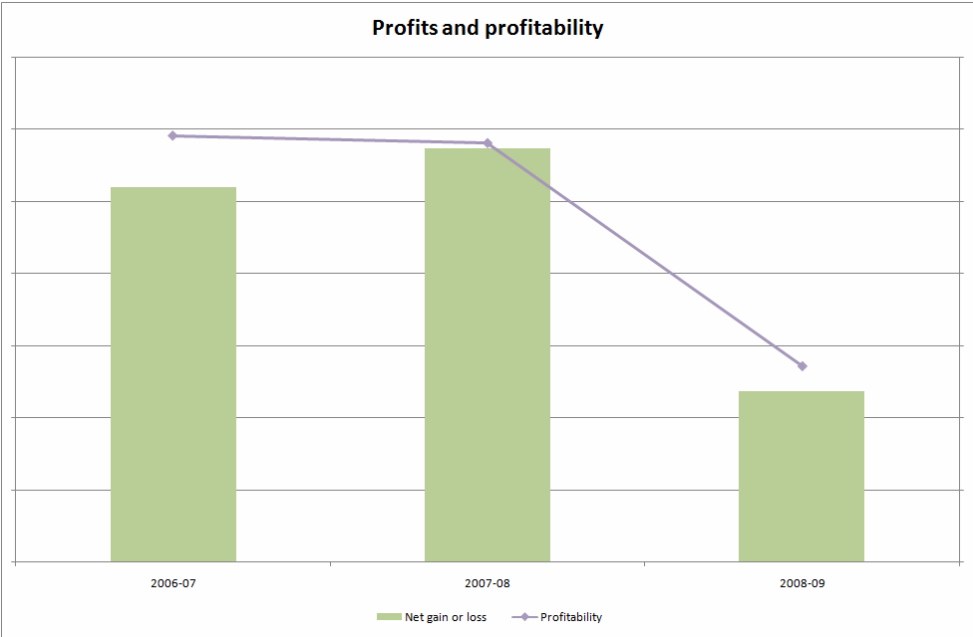
Customs and Border Protection is satisfied that, based on the information submitted in the application, the applicants' prices have been undercut by prices of plywood from Brazil, Chile, China and Malaysia.

The applicants' sales revenue has fallen, but unit prices have increased. Customs and Border Protection is not satisfied the applicants have suffered price depression.

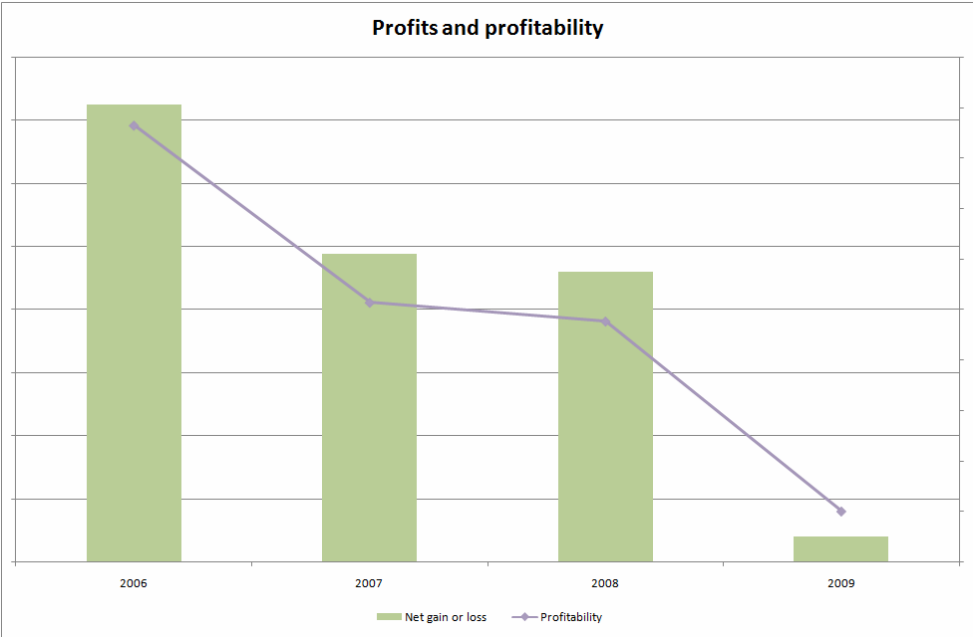
The margin between both total revenue and total costs and unit prices and costs remained relatively stable in 2007-08, but fell in 2008-09. Customs and Border Protection is satisfied that, based on the information submitted in the application, the applicants suffered price suppression in 2008-09.

8.5 Profit effects

Movements in the applicants' profits and profitability are illustrated in the following chart.



Customs and Border Protection notes that profits increased in 2007-08 and fell in 2008-09. When examined using calendar years, profits fell each year from 2006.



Note: 2009 data is for the six months to June.

8.5.1 Conclusion

Customs and Border Protection is satisfied that, based on the information submitted in the application, the applicants' profits and profitability fell in 2008-09.

8.6 Other injury factors

Each applicant completed an appendix A7. The data contained in the respective appendices highlight deteriorating returns on investment since 2007. The applicants stated that due to the different bases employed by each company in calculating return on investment, it is not possible to prepare aggregated data to demonstrate an industry position. However, the evidence provided indicates that the industry has experienced a declining return of investment over the period examined.

The applicants also claim that a declining return on investment impacts the attractiveness to reinvest in the industry. This is particularly apparent for Boral and CHH where the diversified nature of the businesses operated by the parent companies requires individual businesses to compete for investment expenditure based upon recent performance.

In the application, the applicants provided indices of movements in revenue and employment for all the applicants. Both revenue and employment increased in 2007-08, but fell in 2008-09.

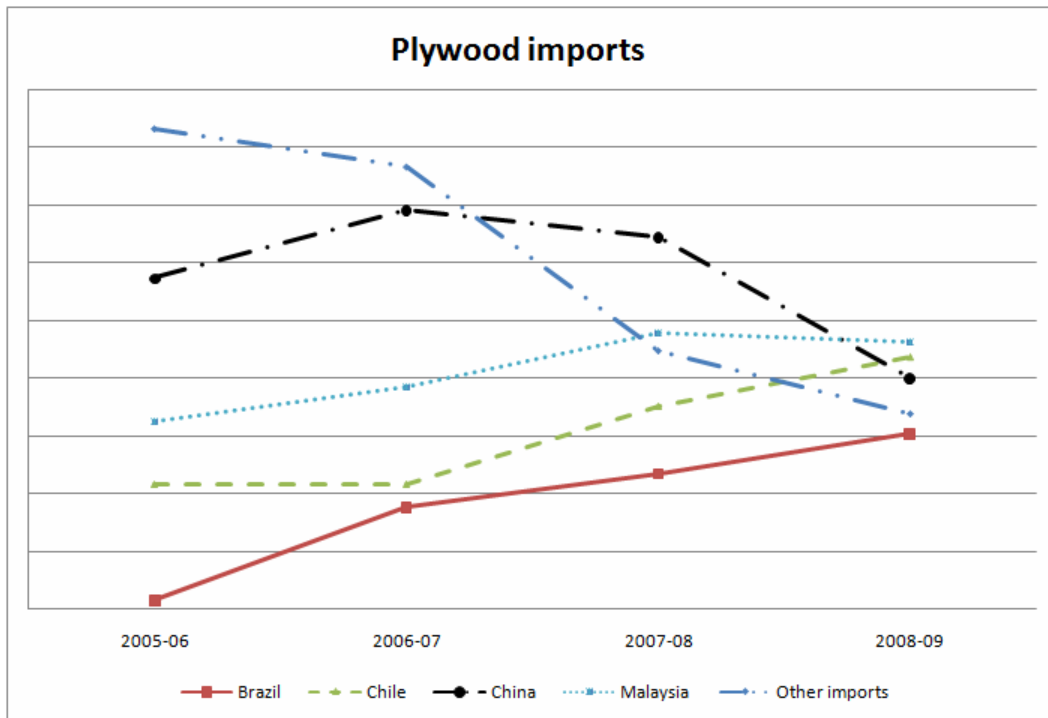
The applicants did not provide consolidated data for any other injury factors. The respective appendices indicate:

- trends in variations in the value of assets and capital investment vary between the applicants;
- the applicants did not incur any research and development expenditure over the period examined;
- the applicants' capacity remained unchanged, but capacity utilisation fell in 2008-09;
- productivity fell in 2008-09;
- there has been an upward trend in stock levels;
- trends in movements in cash flow measures (receivables and inventory turnover) are variable; and
- total and average wages fell in 2008-09.

8.7 Link between injury and dumped imports

8.7.1 Import trends

The applicants provided ABS import data in its application. Movements in import volumes are illustrated in the following chart.



Customs and Border Protection notes that imports from Brazil and Chile increased each year from 2005-06 to 2008-09. Imports from Malaysia increased in 2006-07 and 2007-08, but remained stable in 2008-09; the volume of imports in 2008-09 was about 20% higher than in 2006-07. Imports from China increased in 2006-07, fell slightly in 2007-08 and fell by about 40% in 2008-09. Imports from the nominated countries increased by about 30% in 2006-07 and about 15% in 2008-09, but fell by about 6% in 2008-09. Imports from other countries, excluding imports by the Australian industry, fell each year; the import volume in 2008-09 was about 55% less than the volume in 2006-07.

8.7.2 Causation

The applicants claim that since 2000 the Australian industry's market share of local production has fallen from about 55% to about 43% in 2009. Since 2007, imports from New Zealand have remained relatively stable (at about 17% over last three years), while imports of plywood from other sources, in particular Brazil, Chile, China and Malaysia, have increased and now account for 36% of total domestic sales (compared with 29% in 2006-07).

The applicants claim that in 2007-08, import volumes from the nominated countries increased by more than 16%. Import volumes slowed in 2008-09, although were almost 10 per cent above volumes of 2006-07. By comparison, the applicants' sales in 2008-09 were about 10% below the volumes achieved in 2006-07.

The applicants claim that in 2008-09 their sales of local production fell by 15% over 2007-08 levels and imports from countries not included in this application fell by 31%, but imports from Brazil, Chile, China and Malaysia only fell by 6%.

The applicants claim that competitive offers and market intelligence indicate that export prices from the nominated countries have undercut their selling prices and

prices of imports from other sources. This has enabled imports from Brazil, Chile, China and Malaysia to increase in volume and gain market share. Market offers for plywood imported from Brazil, Chile and China were at the lowest price levels with quotations as low as A\$400 per cubic metre landed into Australia. Recent import offers for Brazilian and Chile plywood have been quoted at A\$335 per cubic metre landed into store in Australia.

The applicants understand that Malaysian plywood is sourced from the more expensive hardwood timbers. However, the price differential for the imported Malaysian finished ply does not reflect the higher cost of the raw material hardwood timber used by the Malaysian manufacturer, with quotations for plywood sold in Australia at competitive levels with imports from Brazil, Chile and China.

The applicants claim that prices for imported plywood undercut their prices in 2009 for structural plywood by levels greater than 40% for Brazil, 25% for Chile, 30% for China and up to 18% from Malaysia.

The applicants claim that the price undercutting by imports from the nominated countries has contributed to an erosion of their profit margin. The decline was evident in the twelve months to June 2008, with further erosion evident in the second half of 2008.

8.7.3 Injury caused by factors other than dumping

The applicants recognise that the Australian economy slowed in the last quarter of 2008, but claim the impact of the global financial crisis on the Australian plywood industry was not experienced until the first quarter of 2009. The applicants claim import volumes from three of the nominated countries have increased since 2007 (Brazil by 73%, Chile by 102% and Malaysia by 20%). Import volumes from China fell over this period. The applicants claim it would not have been unreasonable to have anticipated a slowing of import volumes from all of the nominated countries as the global economy contracted.

The applicants did not identify any other factors that may have caused injury to the Australian industry.

8.7.4 Cumulation of injury

Subsection 269TAE(2C) provides for consideration of the cumulative effect of exports from different countries if after having regard to:

- the conditions of competition between the exported goods; and
- the conditions of competition between the exported goods and the like goods that are domestically produced;

the relevant Minister is satisfied that it is appropriate to do so.

The conditions of competition between imported and domestically produced plywood appear to be similar. The applicants claim that they have been unable to increase prices to recover increased costs as a result of price undercutting by imports of plywood from Brazil, Chile, China and Malaysia.

The information contained in the Customs and Border Protection commercial database indicates that some importers of plywood have imported from a number of the nominated countries. This indicates that the products are used by the same or similar customers.

The goods are alike, have similar specifications and end-uses, and compete in the same markets. The conditions of competition are such that it is appropriate to consider the cumulative effect of the allegedly dumped imports.

8.7.5 Customs and Border Protection's assessment

Customs and Border Protection notes that:

- the size of the Australian market increased by 1% in 2007-08 and fell by about 13% in 2008-09;
- the applicants' sales volume increased by 5% in 2007-08 and fell by 15% in 2008-09;
- imports from the nominated countries increased by 16% in 2007-08 and fell by 6% in 2008-09;
- the applicants provided evidence of the price of imports from the nominated countries undercutting the applicants' prices from 2006-07 to 2008-09;
- the margin between the applicants' unit selling prices and unit costs was stable in 2007-08, but fell in 2008-09; and
- when examined using calendar years, the applicants' profits and profitability have fallen each year from 2007.

The global financial crisis has clearly impacted on the Australian market for plywood. Customs and Border Protection considers that the applicants have reasonably demonstrated that the industry appears to have suffered material injury, particularly in the form of price and profit injury, from allegedly dumped imports from the nominated countries. The applicants have been able to demonstrate that the impact of dumped imports preceded the effects of the global financial crisis, which the applicants say was felt from the beginning of 2009. Customs and Border Protection considers that imports from the nominated countries affected the performance of the Australian industry since 2007.

Customs and Border Protection also notes that a Ministerial direction applies in assessing the "materiality" of injury caused by a given degree of dumping differently, depending on the current economic condition of the Australian industry suffering the injury.

That is to say, an industry which at one point in time is healthy and could shrug off the effects of the presence of dumped products in its market, could at another time, weakened by other events, suffer material injury from the same amount and degree of dumping.⁵

⁵ From a letter from the Minister for Industry Technology and Commerce to the Comptroller General of Customs dated 16 December 1991.

In view of the contraction of the market in Australia since the beginning of 2009, the Ministerial direction may well be relevant to the plywood industry. Customs and Border Protection will consider this further in the course of the investigation.

8.8 Conclusion on material injury caused by dumped imports

Customs and Border Protection is satisfied that, based on the information submitted in the application, the applicants have demonstrated that they appear to have suffered injury and that there appear to be reasonable grounds for concluding that plywood exported from Brazil, Chile, China and Malaysia to Australia at dumped prices has caused material injury to the Australian industry producing plywood.

9 Conclusion

Customs and Border Protection has examined the application and is satisfied that:

- the application complies with s. 269TB(4); and
- there is an Australian industry in respect of like goods; and
- there appear to be reasonable grounds for the publication of a dumping duty notice in respect of the goods the subject of the application exported from Brazil, Chile, China and Malaysia.

Accordingly, the delegate of the CEO has not rejected the application for the publication of dumping duty notices under s. 269TC(1).

For the purposes of the investigations:

- the investigation period to determine whether dumping has occurred will be from 1 October 2008 to 30 September 2009; and
- Customs and Border Protection will examine the Australian market and the economic condition of the industry from 1 January 2006 for the purposes of injury analysis.