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Mr Patrick Quiggan
Case Manager
Dumping Operations 1
Anti-Dumping Commission
Level 35
55 Collins Street
MELBOURNE VICTORIA 3000

Public File

Dear Mr Quiggan

Investigation No. 312 - Continuation of Anti-Dumping measures – ammonium nitrate exported from the Russian Federation

Introduction

This submission is made on behalf of CSBP Limited ("CSBP") and Orica Australia Pty Ltd ("Orica Australia") the two largest Australian manufacturers of ammonium nitrate. The companies account for more than 70 per cent of total Australian ammonium nitrate production capacity.

CSBP and Orica Australia provide this submission in support of their request for the continuation of anti-dumping measures on AN exported from the Russian Federation for a further five years from 24 May 2016.

Public File submissions

It is noted that an Australian importer Nitrochem Pty Ltd ("Nitrochem") has made 5 submissions to the Anti-Dumping Commission ("the Commission"). Nitrochem has asserted that the FOB Baltic price for AN is below the cost of production in Australia due to prevailing gas prices. The FOB Baltic prices reflect export prices for AN that are marginally priced. The Australian industry's concern with AN export prices is whether they are at dumped prices to Australia and whether the dumping causes, or threatens to cause, material injury to the Australian industry.

This submission will further evidence that the determination of the normal value for AN produced in the Russian Federation is the key variable in the determination as to whether AN exported to Australia is at dumped and injurious prices.

Russian Federation Natural Gas

The Russian Federation accounts for the world's largest natural gas reserves at approximately 1,488 trillion cubic feet, and represents one quarter of the world's total proven reserves¹. The State-operated Gazprom accounts for 73 per cent of total natural gas output (2013). Gazprom also presides over a monopoly in pipeline gas exports.

¹ See U.S. Energy Information Administration (EIA) – Russia, 28 July 2015, P.11.

Gas tariffs in the Russian Federation are supervised by the Ministry of Economic Development and administered by the Federal Tariff Service. The Federal Tariff Service also administers electricity tariffs in the Russian Federation where the Federal Grid Company – more than 70 per cent owned² by the Russian Federation government (directly and indirectly through Gazprom) - “controls most of the transmission and distribution infrastructure in Russia”.

Value-adding to local gas supplies is a key industry in Russia. In particular, nitrogen industries (that includes ammonia, AN, and AN-urea) are large industries that are significant players on global export markets with low-priced products. Since the mid 1990s, administrations in the U.S., Europe and Australia have imposed anti-dumping measures on low-priced nitrogen-based products (including urea, AN and AN-urea) to address the dumping evident in Russian export prices.

Despite commitments to raise natural gas prices in the Russian Federation to full cost recovery levels and permit the markets to determine prices, the Russian government continues to legislate domestic prices that are substantially lower than export prices (particularly into Europe, where Gazprom supplies up to 30 per cent of Europe’s natural gas requirements).

Market Situation

The government-determined artificially low gas prices are the raw material feedstock for ammonia and AN producers in the Russian Federation. The low-input prices for natural gas that are regulated by the government of the Russian Federation translate into artificially-low ammonia and AN prices domestically and for export (e.g. Baltic sea prices which are often the lowest AN process globally) and cannot be considered to be free of government influence.

The artificially low gas prices provide Russian Federation AN producers (with an approximate 17 million tonnes in AN production capacity including high and low density AN) with a competitive advantage in terms of pricing that is recognized within the industry as the prevailing benchmark price. In the absence of anti-dumping measures, FOB Baltic prices will quickly translate into reduced AN prices on the Australian market as Russian exporters (and importers that source Russian Federation volumes) have well established distribution links into the Australian market.

The impact of government influence on gas prices in the Russian Federation cannot be ignored. This influence renders domestic selling prices for AN in the Russian Federation unsuitable for determining normal values under s.269TAC(1) of the *Customs Act*. As raw material inputs are determined by the government, rendering domestic prices (by all exporters) unsuitable for normal value purposes, the provisions of s. 269TAC(2)(a) are considered to apply to AN selling prices in the Russian Federation (i.e. a market situation prevails).

It has also been demonstrated that the government of the Russian Federation regulates and therefore significantly influences domestic electricity prices (in addition to natural gas prices). Electricity is a significant energy cost in AN manufacture (estimated 10% of AN production cost). CSBP and Orica submit that it is not appropriate to base AN normal values on a producer’s production costs in the Russian Federation as a substantial proportion of total production costs is determined by Russian government regulation that is not market-based. Additionally, rail freight is operated (and regulated) by the government throughout the Russian Federation. Rail freight costs are not determined by the market, but by government agency.

Normal values, therefore, for AN must be determined on the basis of surrogate market AN selling prices or surrogate constructed cost of production information.

² Ibid, P.17.

Impact on Australian Market

Following the continuation of measures on AN exported from the Russian Federation in 2011, imports of AN into Australia accounted for between 2 and 5 per cent of the total import volume into Australia between 2011 and 2013. However, in 2014 and 2015, there has been an upsurge in import volumes – both as a percentage of total imports and in actual volumes. In 2014 approximately 6,500 tonnes were declared as having been imported from the Russian Federation. The Australian industry understands that in addition to this volume, imports declared from Malaysia (where no AN manufacture exists) of 21,600 tonnes and supplied into Port Headland W.A. originated in the Russian Federation. On this basis, total imports from the Russian Federation into Australia in 2014 were more like 12 per cent of the total import volume.

In 2015, imports from the Russian Federation accounted for almost one-third of total import volumes into Australia.

The volume of supply into Port Headland W.A. was for use in explosives applications.

A further shipment (ex Malaysia) was supplied into Port Headland in early 2015, with increasing, smaller volumes from the Russian Federation evident during the remainder of 2015.

The Russian Federation is a source of supply for explosives and fertilizer manufacturers throughout Australia and is a pricing benchmark for import supply into Australia due to the supply capability of the Russian Federation AN industry and availability on the global market.

CSBP and Orica do not consider that the AN import volumes from Malaysia can be ignored in the context of this continuation investigation. It is well known within the industry that the volumes have originated from the Russian Federation and have been supplied to explosives suppliers in key mining locations throughout Australia (particularly W.A.).

As the largest source of AN supply globally, the Russian Federation continues to influence the purchasing decisions of Australian explosives and fertilizer producers. The removal of anti-dumping measures on AN exported from the Russian Federation will, therefore, have a significant impact on the future purchasing decisions of procurement specialists in the industry.

Threat of material injury in the absence of measures

The Australian industry has grown three-fold since 2000. Installed production capacity now exceeds 2 million tonnes with investment decisions made since 2000 in the knowledge that effective anti-dumping measures have applied to AN exported from the Russian Federation.

The Australian market has historically been a net importer of AN with supply from countries including China, the Ukraine, Sweden, Indonesia and Uzbekistan. The impact of anti-dumping measures on AN from the Russian Federation has provided the Australian market with stability, enhancing local supply availability and surety, whilst also being open to competitive, fair-priced imports.

Recent expansion decisions and investments within the Australian AN industry (involving the applicant companies) endorse a strong and robust industry that nurtures further growth opportunities. However, should the anti-dumping measures on AN exported from the Russian Federation,

- (i) be determined on normal values that reflect artificially low domestic selling prices or production costs in the Russian Federation; or
- (ii) be allowed to expire on 24 May 2016,

the Australian AN industry will endure uncertainty surrounding current and future AN investments as FOB Baltic sea prices for AN sourced from the Russian Federation translate into landed selling prices on the Australian explosives and fertilizer markets.

CSBP and Orica request the Commission to find a market situation applies to AN sold domestically in the Russian Federation due to the role of the government in establishing artificially low gas and electricity prices that are not determined in accordance with market forces. The applicant companies further request the Commission to base normal values for AN upon surrogate domestic selling price or constructed cost of production (i.e. fully absorbed cost to make and sell) information. This information can be readily sourced from industry publications and entities involved in nitrogen production cost economics.

The determination of normal values for AN in the Russian federation using surrogate information will confirm that FOB Baltic prices (as represented by Nitrochem) are dumped and injurious to the Australian industry. In the absence of anti-dumping measures on AN exported from the Russian Federation, the Australian industry manufacturing like goods will be exposed to a recurrence of material injury that the measures are intended to prevent.

For the reasons detailed in this submission, CSBP and Orica submit that the Parliamentary Secretary should continue the anti-dumping measures for a further five-year period from 24 May 2016 and not allow the measures to expire.

If you have any questions concerning the attached application please do not hesitate to contact me on (07) 3342 1921.

Yours sincerely



John O'Connor
On behalf of CSBP Limited and Orica Australia Pty Ltd