



Australian Government

Australian Customs and  
Border Protection Service

R E P O R T

INVESTIGATION INTO THE ALLEGED DUMPING OF FORMULATED  
GLYPHOSATE

EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA

VISIT REPORT - AUSTRALIAN INDUSTRY

ACCENSI PTY LIMITED

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED  
THEREIN WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY  
NOT REFLECT THE FINAL POSITION OF CUSTOMS AND BORDER  
PROTECTION

March 2012

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**2 BACKGROUND****2.1 The application**

On 21 December 2011, Nufarm Ltd (Nufarm) and Accensi Pty Ltd (Accensi) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of formulated glyphosate exported to Australia from the People's Republic of China (China).

The applicants subsequently provided further information in support of their application. As a result, Customs and Border Protection restarted the 20 day period for considering the application.

On 6 February 2012, following consideration of the application, the Australian Customs and Border Protection Service (Customs and Border Protection) initiated an investigation. Public notification of initiation of the investigation was made in *The Australian* on 6 February 2012. Australian Customs Dumping Notice No. 2012/05 provides further details of this investigation and is available at [www.customs.gov.au](http://www.customs.gov.au).

Customs and Border Protection has previously conducted two investigations into formulated glyphosate from China. The most recent investigation was in 2001-2002, following an application lodged by Monsanto Australia Limited (Trade Measures Report 45 refers). Then trading as A&C Chemicals, Accensi was an interested party in this investigation.

There are no current anti-dumping or countervailing measures on formulated glyphosate exported to Australia from China.

**2.2 Purpose of visit**

We explained to Accensi that the purpose of our visit was to:

- obtain general information about the Australian market for formulated glyphosate;
- gain a greater understanding of the company's manufacturing, marketing, sales and distribution processes;
- verify information provided in the application relating to the company;
- obtain additional financial data to assist in the analysis of the claimed injury to the Australian industry;
- give the company the opportunity to provide any further comments or raise any further issues it believed relevant to the investigation; and
- discuss and gather data relevant to establishing an unsuppressed selling price (USP).

A copy of the visit agenda is at **Confidential Attachment GEN01**.

**2.3 Contact details**

Company:	Accensi
ABN:	94 079 875 184
Address:	60-76 Potassium Street, Narangba, Queensland, 4504
Telephone:	(07) 3897 2000
Fax:	(07) 3897 2022
Date of visit:	14 - 15 March 2012

The following representatives were present at various stages of the meetings.

Company / agency	Representatives
Accensi	<ul style="list-style-type: none"> <li>◦ Dean Corbett, Chief Executive Officer</li> <li>◦ Craig Ellis, Business Manager</li> <li>◦ Peter Ooi, Financial Controller</li> <li>◦ Other financial accounting and sales support staff</li> </ul>
John O'Connor & Associates	<ul style="list-style-type: none"> <li>◦ John O'Connor, Director</li> </ul>
Customs and Border Protection	<ul style="list-style-type: none"> <li>◦ Joanne Reid, Director, Operations 2</li> <li>◦ Christie Sawczuk, Manager, Operations 2</li> <li>• Carl Halpin, Supervisor, Operations 2</li> </ul>

**2.4 Investigation process and timeframes**

As an applicant, we confirmed that Accensi were cognisant of the key reporting investigation timeframes as specified in ACDN 2012/05. We provided a summary of the investigation process and timeframes as follows:

- the investigation period is 1 January to 31 December 2011;
- Customs and Border Protection will examine the Australian market from January 2008 for the purpose of analysing the condition of the Australian industry;
- a preliminary affirmative determination may be made no earlier than 10 April 2012 – which is the first working day after the Easter public holiday. Provisional measures may be imposed at the time of the preliminary affirmative determination (PAD) or at any time after the PAD has been made, but Customs and Border Protection would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice;
- a statement of essential facts (SEF) will be placed on the public record by 28 May 2012 or such later date as the Minister allows - the SEF will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister and will invite interested parties to respond, within 20 days, to the issues raised (submissions received in

response to the SEF will be considered when compiling the report and recommendations to the Minister); and

- Customs and Border Protection's report to the Minister is due on 10 July 2012.

## 2.5 Visit report

As Accensi has previous experience with the verification and visit reporting process, we briefly explained to the company that we would prepare a report of our visit (this report) and provide it to the company to review its factual accuracy, and to identify those parts of the report it considers to be confidential.

We noted that, in consultation with Accensi, we would prepare a non-confidential version of the report to be placed on the Public Record.

## 2.6 Introductory presentations

At the commencement of the visit, Accensi provided a PowerPoint presentation which covered:

- company history and corporate organisational structure;
- Accensi's product range by production facility;
- an overview of the Australian rural merchandise market, including key competitive markets and supply sources;
- environmental, health, safety and quality issues in respect of agricultural chemicals;
- Accensi's production capacity for formulated glyphosate; and
- Accensi's future direction and investment opportunities for formulated glyphosate.

A copy of this presentation is at **Confidential Attachment GEN02**.

**3 THE GOODS****3.1 The goods**General description

The goods the subject of the application (the goods) is formulated glyphosate. The application specifies that:

*"The imported product the subject of this application is formulated glyphosate, a non-selective herbicide, imported in varying strengths of the active glyphosate acid ingredient ("glyphosate technical"). A non selective herbicide is one that controls weeds in all situations"*.

Formulated glyphosate products are used for the non-selective control of weeds and are absorbed by the leaves and green tissue of susceptible plants. Translocated throughout the plant, formulated glyphosate based herbicides inhibit a specific enzyme, EPSP synthase, which plants need in order to grow. Without that enzyme, plants are unable to produce other proteins essential to growth, so they yellow and die over the course of several days or weeks.

Glyphosate formulations

The application states that in the Australian market the different formulations (of glyphosate) are described according to grams of glyphosate technical per litre (g/L) or kilogram, whereas on the global market the formulations are commonly described by the percentage of glyphosate technical contained in the formulations on a weight for weight basis. The application contains the following indicative comparison of the glyphosate formulations described by grams per litre / kilogram or percentage basis of glyphosate technical.

Unit of product	Glyphosate content – measured as g/L or grams per Kg	Glyphosate content – measured on a weight per weight basis (expressed as a percentage)
Litre (L)	360	41.6%
L	450	50.6%
L	570	61.5%
Kilogram (Kg)	680	75.7%

This table is indicative only<sup>2</sup>.

The application specifies that:

<sup>1</sup> Application for the publication of a dumping duty notice for formulated glyphosate exported from China (Application), page 7.

<sup>2</sup> Application, page 8.

*"This application is concerned with imported Glyphosate in all its fully formulated liquid forms including Glyphosate 360, Glyphosate 450 and Glyphosate 570 and the fully formulated dry form including Glyphosate 680"<sup>3</sup>.*

The applicants claim that:

- the imported formulated glyphosate products (at varying strengths) have the same end use;
- all formulations strengths are substitutable;
- the imported dry formulation can be substituted for liquid forms; and
- all imported formulations are applied within the approved application rates indicated on the product label, expressed on a litre per hectare basis.

At the consideration stage of the investigation, Customs and Border Protection considered that the goods covered by the application and investigation, includes formulated glyphosate in any form (i.e. not limited to liquid forms) and at any concentration (whether described according to weight of glyphosate technical by volume or percentage of glyphosate technical).

Exclusion of certain goods from investigation

The application specifies that it is important to distinguish between formulated glyphosate (i.e. the goods) and glyphosate acid, which is the primary ingredient in the manufacture of formulated glyphosate. Glyphosate acid is **not** the subject of the application.

Customs and Border Protection considers that the goods covered by this application, and the subsequent investigation does **not** include glyphosate acid.

Tariff classification

Formulated glyphosate is classified under the tariff subheading 3808.93.00 (statistical code 48) of Schedule 3 to the *Customs Tariff Act 1995*. The current rate of duty applying to the goods imported to Australia from China is 5%.

There are currently no Tariff Concession Orders applicable to the relevant tariff subheadings.

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<sup>3</sup> Application, page 8.



## 4 BACKGROUND - ACCENSI AND THE AUSTRALIAN INDUSTRY

### 4.1 Corporate, organisational and ownership structure

Accensi is a 100 per cent owned subsidiary of Isnecca Pty Ltd (Isnecca), which is a holding company. Isnecca is a 100 per cent subsidiary of Herorich Investments Ltd, which is ultimately owned by CK Life Sciences International Holdings Inc. (CK Life Sciences), a company listed on the Hong Kong Stock Exchange.

Accensi is principally a toll manufacturer of crop protection products in Australia, with production facilities located in Queensland (QLD) and Western Australia (WA). Accensi manufactures a wide range of products for domestic and multinational chemical companies and provides services in technical formulation development, storage and distribution of agricultural chemicals. Accensi has six registrations with the Australian Pesticides and Veterinary Medicine Authority (APVMA) for formulated glyphosate products.

The application states that Accensi is also a member of Croplife Australia (an industry association).

#### Company background (as relevant to formulated glyphosate)

In 1987, A&C Chemicals was formed to produce chemical compounds used primarily as wood preservatives in the timber treatment industry.

In 1991, A&C Rural began trading in fertilizers and certain niche crop protection chemicals and established the "Country" brand. The company's agro-chemical tolling service (including formulated glyphosate) was also established. From 1998 the company focused on supplying multinational companies, which outsourced supply rather than manufacture.

In 2000, a 10 000m<sup>2</sup> logistic and storage centre at Narangba was established and in 2002, a WDG (Water Dispersible Granule) Plant was established.

In 2004, A&C Chemicals purchased the Greenfield site for the proposed Western Australian Production Facility, which commenced operations in 2005.

In 2006, A&C Chemicals was renamed "Accensi" and A&C Rural is now known as "Accensi Rural".

In 2008, Accensi was purchased by CK Life Sciences. Accensi advised that CK's focus is on expanding the business and by 2009 had provided all capital required to increase glyphosate production capacity at Narangba as well as acquiring a dedicated site for storing MIPA, which is used solely for glyphosate production.

In 2011, Accensi ceased selling its own brand of crop protection products and focused solely on formulating / toll manufacture. The Country range of agricultural pesticides and fertilizers has been divested to Amgrow Specialty (Amgrow), a sister business of Accensi.

### Corporate organisational structure

Within the application, Accensi provided a chart displaying the CK Science Group's organisational structure and a chart displaying Accensi's corporate structures, which are at **Confidential Attachment COM01**.

Accensi's PowerPoint presentation provided at the visit included updated corporate organisational structures (**Confidential Attachment GEN02** refers).

### **4.2 Accounting structure and details of accounting systems**

The accounting period of Accensi is 1 January to 31 December.

Accensi's financial statements are consolidated into the Herorich Investments Group statements, which are audited annually. A copy of Accensi's internal financial statement January to September 2011 (shown as the Isnecca Group) and Herorich Investments Ltd's (Herorich Investments') Annual Reports 2009 and 2010 form Confidential Attachment A-2.9 and A-6.3.2 of the application. The 2011 Annual Report was not available at the visit as it is being finalised.

At the visit, Accensi provided an updated internal income (profit and loss (P&L)) statement to December 2011. Subsequent to the visit, Accensi also provided a letter and stamped financial reporting package (including balance sheet and income statement for the period ending 31 December 2011) from Deloitte which:

- clarified auditing procedures undertaken for Isnecca (including Accensi);
- advised that the financial reporting package was prepared to inform Deloitte HK in preparing Herorich Investments' audited financial reports; and
- confirms that the Accensi's financial statements reconcile with the audited financial reports for the company group.

The letter and financial reporting package are at **Confidential Attachment COM02**.

Accensi utilises *Arrow* as it's financial and management accounting system. Accensi's accounting practices are in accordance with Australian generally accepted accounting principles and International Accounting Standards. Accensi's general ledger chart of accounts was also provided at Confidential Attachment A-6.3.1 of the application.

### **Relationship with suppliers and customers**

#### Suppliers

Accensi advised that it does not have any relationship with Chinese exporters or Australian importers of formulated glyphosate. However we noted that they have a direct relationship with certain Chinese suppliers of glyphosate technical, which also produce and export formulated glyphosate. Accensi advised that it has no ownership or financial relationship with these companies and that all transactions for glyphosate technical are considered arms length.

### Customers

Accensi advised that it does not have any relationships with its domestic customers other than buyer and seller. However, we identified that Accensi made formulated glyphosate sales to two related companies, [REDACTED] [companies]. Sales to these customers are discussed further at section 6.1.2.

## **4.3 Accensi's manufacturing facilities and product range**

### **4.3.1 Manufacturing facilities**

#### Current

Accensi operates two manufacturing and warehousing facilities in Australia, at which formulated glyphosate is produced:

- Narangba (QLD), which contains two glyphosate vessels; and
- Kwinana (WA), which contains one glyphosate vessel.

Accensi's production facilities incorporate a number of segregated manufacturing sheds, laboratories, offices and warehouse. Each site also includes laboratories for quality control and formulation development.

Accensi manufacture [REDACTED] and [REDACTED] herbicide, insecticide and fungicide products at the Narangba and Kwinana sites respectively. Accensi advised that approximately [REDACTED]% of total production represents pre and post emergent herbicides, including; glyphosate, 2-4D, trifluralin and paraquat. Approximately [REDACTED]% of total Kwinana production relates to herbicide products. Accensi advised that over the last 10 years approximately [REDACTED]% of total production represented glyphosate products.

As a toll manufacturer, Accensi advised it does not operate regional customer service centres.

#### Future

Accensi advised that in 2010, [commercially sensitive details of Accensi's future growth plans]. [REDACTED] [location]

[REDACTED]

### **4.3.2 Product range**

As a toll manufacturer, Accensi's sales are made to chemical companies (APVMA registrants), who subsequently sell to distributors, who then on-sell to farmers. As previously mentioned, Accensi has 116 registrations with the APVMA and also support companies which develop new products under contract either where the formulation is owned by the client, including analytical methods, storage stability and efficacy, or where Accensi-owns the formulations, with data provided to registration authorities on behalf of the companies.

Accensi manufactures formulated glyphosate with an active concentration containing glyphosate technical and a mono-isopropylamine (MIPA) or potassium salt. The application states that Accensi manufactures formulated glyphosate 360 g/L, 450 g/L and 540 g/L in liquid forms (it ceased production of dry granules in 2008). However, we identified that since 2008, Accensi also manufactured formulated glyphosate [REDACTED] g/L ([REDACTED] L) and 510 g/L ([REDACTED] L). This is discussed further at section 8.2.

Accensi also has several new formulated glyphosate products in development, [REDACTED]  
[REDACTED] [Commercially sensitive formulation information].

Accensi manufactures formulated glyphosate in varying packaging sizes. In 2011, Accensi manufactured formulated glyphosate products in the packing types tabulated below:

Product grade	Package type
[REDACTED]	1L
360	1L, 2.5L, 5L, 10L, 20L, 200L, 500L and 1000L
450	20L, 110L and 1000L
510	20L, 100L, 120L and 1000L
540	20L, 100L, 110L and 1000L

\* Note, sales of [REDACTED] g/L were extremely minor.

Accensi advised that it currently does not have its own product range or product brochures, however, included labels of the three grades of formulated glyphosate it manufactures in the application. It is an APVMA registration requirement to provide a specimen label when registering a product, even though that label may never be used.

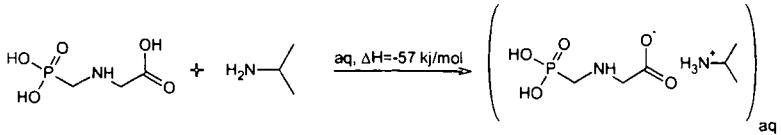
#### 4.4 Accensi's formulated glyphosate production process

As specified in the application:

*"The initial stage of the process involves the amination of glyphosate acid and mono- isopropylamine to produce the isopropylamine salt of the N-phosphonomethylglycine molecule (i.e. the active ingredient). The amination process is essentially a controlled acid-base chemical reaction. The amination process is an exothermic reaction that generates significant heat.*

*The amination process is carried out in large purpose built reaction vessel that incorporates cooling equipment and microprocessor based process controls to maintain the temperature of the chemical reaction. This facilitates production in large-scale batches. The vessels are also equipped with sulphuric acid scrubbers to prevent emission of noxious fumes of mono-isopropylamine to the atmosphere.*

*The following depicts the chemical reaction that occurs during the amination process.*



The second stage of the process involves formulation, where the isopropylamine salt of glyphosate is blended with surfactants and other ingredients to produce a glyphosate herbicide at the desired level of concentration (i.e. between 7.2 – 540 grams per litre). The addition of surfactants facilitates the absorption of the active ingredient by plants. Without the addition of the surfactants, plants do not readily absorb the isopropylamine salt of glyphosate.

After formulation, the glyphosate herbicide is packaged in a variety of retail containers ranging from 250 ml to 1000 litre. The herbicide is also loaded into bulk containers for transport to refilling stations located through regional Australia<sup>4</sup>.

During the verification visit, we conducted an inspection of Accensi's production facilities at Narangba. As a result of the information provided by Accensi and our inspection of the production facilities, we are satisfied that Accensi:

- Produces formulated glyphosate in the method described above; and
- undertakes at least one substantial process of manufacture in producing formulated glyphosate in Australia.

During 2008 to 2011 Accensi manufactured and supplied formulated glyphosate using technical glyphosate which was either sourced by Accensi or by the toll customers. To distinguish these sales they are herein referred to as "Accensi technical" sales and "Accensi toll sales".

#### 4.5 Like goods

The application states that:

*"The imported goods are alike to locally produced formulated glyphosate as they each possess the following essential characteristics:*

- (i) *Glyphosate technical is the dominant active ingredient in the locally produced formulated glyphosate products and the imported formulated glyphosate product;*
- (ii) *The various formulations represent variations in the presentation of the glyphosate technical for both the locally produced and imported goods;*
- (iii) *The production of formulated glyphosate (for both locally produced and imported goods) is a relatively standard process.*

<sup>4</sup> Application, page 10.

- (iv) *All glyphosate formulations whether locally produced or imported have the same end use.*
- (v) *All glyphosate formulations whether locally produced or imported generally have the same channels of market distribution.*
- (vi) *There is an absence of any clear dividing line in terms of market segmentation between the various formulations and product substitution can occur between the formulated products (whether locally produced or imported)<sup>5</sup>.*

Accensi advised that formulated glyphosate produced domestically are like goods to the formulated glyphosate imported from China and that there is no discernible difference between the products. Formulated glyphosate is a non selective herbicide, where glyphosate technical is converted into a soluble form at varying concentrations, through the addition of water and surfactants. When packaged all products (imported and local) at varying formulation strengths are labelled for identical uses. The AMPVA controls registration and supply of formulated glyphosate in the Australian market. All imported and local formulations (at varying strengths) are applied within the approved application rates indicated on the product label, expressed on a litre per hectare basis.

Accensi advised that the quality of surfactants used to produce formulated glyphosate may vary. It noted that surfactant costs represent approximately ■ to ■, (approximately ■ cents) of the total costs to make and sell (CTMS) per L of 450 g/L product. Accensi considered that, historically, the imported Chinese formulated glyphosate was a good quality product predominately with a good quality surfactant. However Accensi noted that this was starting to change as inferior and cheaper surfactants are being used to reduce production costs and therefore price (this is discussed further at section 5.6).

Accensi advised that the different formulated product can be interchanged, as the end user may adjust the application and usage rate. They advised that the 360 g/L product is predominantly supplied to the smaller garden retail and horticulture markets, whereas formulated glyphosate at 450 g/L or above are supplied to agricultural markets. This is reflected in product packaging, as the 360 g/L product is predominately packed in smaller container types (e.g. 1L, 5L and 20L), whereas products with higher technical components would not usually be packaged in smaller containers. The price for the 360 g/L product is also higher reflecting higher container and surfactant costs (which are higher, as an additional surfactant is not required to be added by the end user). Accensi also noted that premium products (with higher technical components) were supplied to the market. However that overall, the end use of the products is the same and they are therefore ultimately interchangeable.

We sought Accensi's views on whether 62% isopropylamine (IPA) salt forms of glyphosate (manufacturing concentrate) were like goods. This is the intermediary product produced following the first stage of the animation production process, where surfactants and water have not been added. Accensi does not manufacture and

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<sup>5</sup> Application, page 10.

supply this intermediary product. Accensi advised that ultimately this product cannot be applied without further dilution and formulation, (where a surfactant is added). Accensi noted that goods imported into SA which are declared as glyphosate acid is likely to be formulated glyphosate or 62% IPA solution as there are no toll manufacture facilities in this region.

At this stage, we consider that the goods produced by the Australian industry are like goods to imported formulated glyphosate from China.

#### 4.6 Employment numbers

In Confidential Appendix A7 of the application, Accensi provided details of its employment numbers for like goods for its production facilities for the period 2008 to 2011. Appendix A7 highlights that an average of [REDACTED] staff were employed in the investigation period in respect of the manufacture of like good.

Accensi advised at the visit that [REDACTED] to [REDACTED] employees are directly involved in producing formulated glyphosate (across two twelve hour shifts per day). [REDACTED] to [REDACTED] employees are indirectly involved, as they are shared resources across all products for general factory and warehouse operations (e.g. packaging and fork truck operation etc).

Further analysis and verification of employment numbers is contained at section 8.7.

#### 4.7 Annual turnover

Accensi's annual net revenue for all products in 2011 was approximately AUD \$[REDACTED] million (m) (reflecting domestic sales only as Accensi do not export goods). As a proportion of this total revenue figure, formulated glyphosate accounted for approximately AUD \$[REDACTED]m or [REDACTED] %.

Formulated glyphosate revenue was submitted within Accensi's Appendix A6 as summarised below.

Period	Net sales revenue for like goods (\$AUD m)
2008	\$ [REDACTED]
2009	\$ [REDACTED]
2010	\$ [REDACTED]
2011	\$ [REDACTED]

#### 4.8 Capacity

In Confidential Appendix A7 of the application, Accensi provided production capacity figures for all plants for 2008 to 2011.

This Appendix shows that the maximum capacity for formulated glyphosate for both plants for the period above was [REDACTED] L per annum. Accensi advised that all their plants are capable of producing [REDACTED] kL per day, with [REDACTED] kL in QLD and [REDACTED] kL in WA ([REDACTED]). This estimate is based on five day working week.

Within Confidential Appendix A7, Accensi indicated its capacity utilisation to be as follows:

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Period	Accensi's capacity utilisation
2008	%
2009	%
2010	%
2011	%

At the visit Accensi advised that it was currently operating well below maximum capacity. Accensi's capacity utilisation is further discussed at section 8.7.



**5 AUSTRALIAN MARKET****5.1 General**

The applicants state that formulated glyphosate is used as an herbicide for broad-acre weed control, along with certain horticulture and home and garden applications (requiring weed control).

Fully formulated products manufactured by the applicants, other Australian industry formulators and imported products are supplied to the Australian agricultural (including horticulture) market. The products are also sold to domestic / residential and industrial end-users for weed control purposes.

Accensi prepared a document to address visit agenda issues on the Australian market for formulated glyphosate, which was provided subsequent to the visit (**Confidential Attachment AUS01**).

**5.2 Australian manufacturers**

The application identified eleven companies, other than Nufarm and Accensi, as Australian toll manufacturers of formulated glyphosate.

Accensi identified its direct tolling competition by region, as Cheminova, (Wyong), Autopak, (Sydney), Nufarm, Intec, Chempak, (Melbourne), Nufarm, Bayer, Opal, Western Stock Distributors, Pro Fill and Imtrade (Perth).

Accensi calculated an estimated volume of formulated glyphosate manufactured by the Australian industry in 2011, based on Australian Bureau of Statistic (ABS) data for imports of glyphosate technical (from China and the United States (US) under tariff classification 2913.00.00. From this data, they calculated the total volume of formulated glyphosate which could be produced using glyphosate technical imports, of [REDACTED] m Ls of 450 g/L (IPA salt), noting:

- that there is a variance between active level of technical from the US (known as "wetcake") 84% and from China 95% (with a few suppliers at 97%) active levels;
- the ABS import data contains imports described as glyphosate technical with prices well below market prices (so therefore cannot be glyphosate technical), which distorts estimated import volumes; and
- import statistics contain imports from countries which do not manufacture technical, further highlighting the inaccuracies.

ABS data and Accensi's Australian industry volume calculations are at **Non-Confidential Attachment AUS01** and **Confidential Attachment AUS02** respectively.

**5.3 Imports**

Using the ABS data, Accensi also calculated the total volume of formulated glyphosate imported under tariff classification 3808.93.00 from China in 2011, as [REDACTED] m Kgs, noting:

- the difficulties with obtaining accurate estimates of import volumes as a range of herbicides are imported under this tariff classification;
- the description of the imported goods does not easily identify formulated glyphosate, as goods described as "herbicide" may cover other active ingredients besides glyphosate;
- the description of the goods does not specify the active levels of the goods (i.e. if it is a 7 g/L or 680 g/Kg product), therefore estimates have been based on declared prices; and
- variances with units of measurement, as the import data is shown in Kg, however the imported goods are in dry and liquid forms.

Noting the assumptions / issues above, from the ABS data, Accensi derived an estimated 450 g/L equivalent volume, of ■■■m L. As the majority of imported volume is 450 g/L, Accensi converted Kg to L, based on the Kgs declared and the average Specific Gravity of formulated 450 g/L product which approximately 1.2.

The ABS data and Accensi's import volume calculations are at **Non-Confidential Attachment AUS02** and **Confidential Attachment AUS03** respectively.

#### 5.4 Total market size

Based on import data of both technical (acid) and formulated glyphosate (as described in the two preceding sections), Accensi estimated the Australian market is approximately ■■■m L of 450 g/L equivalent, or about ■■■m L of 360 g/L equivalent. Accensi advised that seasonal conditions cause significant fluctuations to market size. It also noted that the total market volumes as stated in the application may be slightly overstated.

Accensi advised that it faces direct competition from Nufarm, and all registrants of glyphosate formulations, including importer / traders of the Chinese product. The imported product is usually registered through a registration consultant.

#### 5.5 Market segments and distribution arrangements

Accensi explained that formulated glyphosate products are supplied to the agricultural sector for planting and weed control purposes and to retail and horticultural market segments

The applicants submit that the Australian formulated glyphosate market comprises local manufacturers, traders / importers, formulators (other Australian producers), other suppliers, distributors, resellers and end-users.

The application provides a description of each of the market suppliers as follows:

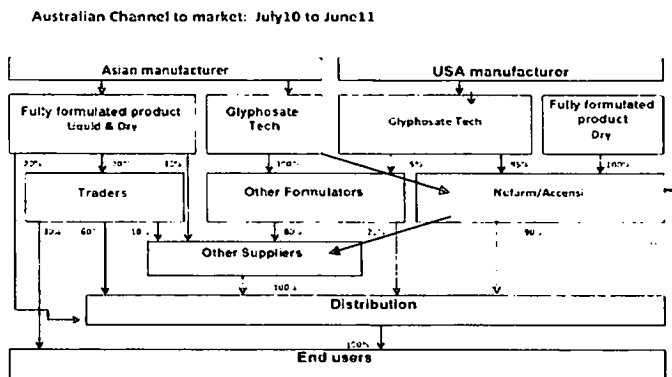
- Traders / importers – traders are responsible for importing fully formulated glyphosate products from Asian manufacturers and then selling to other suppliers, distributors and end users.
- Formulators - are responsible for importing glyphosate technical to formulate glyphosate products in house and then sell the formulated product to other suppliers and distributors. Accensi and Nufarm formulate glyphosate on behalf of local suppliers in Australia. Accensi advised that a distinction should be

made that Accensi's clients are primarily chemical companies, (registrants), whilst Nufarm's clients are primarily distributors.

- o Other suppliers - are responsible for purchasing formulated glyphosate products from traders and other formulators and selling to distributors.
- o Distributors - Distributors act as traders and import fully formulated product from Asian manufacturers, but more generally are responsible for purchasing formulated product from traders, formulators and other suppliers.

The application contained a diagram which depicted the 2010/11 market supply and distribution channels for locally produced and imported formulated glyphosate in the Australian market. Accensi noted there were several inaccuracies depicted in the original diagram. These are discussed at section 5.6.

While Accensi makes no comment about the accuracy of the percentages depicted in the diagram, it added arrows to show that Accensi also purchases glyphosate technical from Asian manufacturers and that sales are predominantly to registrants (referred to as "Other Suppliers"), not to the distribution level.



The application also claimed that the majority of formulated glyphosate is supplied and sold through traders and/or distributors to end-users.

## 5.6 Factors influencing market performance

### Price

Accensi advised that price is the primary driving factor in the Australian formulated glyphosate market. It noted that the importers of the Chinese goods are the prices setters. While varying product strengths and formulation types are available, the recent market trend has been to take the lowest cost product available and set it as benchmark. Therefore reduced pricing for 450 g/L products impact on prices for 540 g/L products.

Distribution channels to market

Accensi advised that as a result of the large volume of product registrants, that "traditional" market distribution channels are changing. These changes are not accurately depicted in the distribution channel diagram shown at section 5.5. The factory to farm business model is currently being tested, which is achieved by removing one, two or even three distribution channel layers (e.g. products supplied directly from the exporter to the farm). To support this claim Accensi provided advertising pamphlet for [REDACTED] [company name] supplier of agricultural chemicals promoting the factory to farm business model (**Confidential Attachment AUS04** refers). Accensi noted that this change combined with price cutting where participants at one distribution level are being asked to match prices at lower distribution levels is putting further downwards pressure on price.

Low barriers to entry

Accensi advised that there are very low barriers to enter the Australian glyphosate market. It is relatively inexpensive (AUD \$600) to register a product / label, which has resulted in a significant increase in registrants in the last two years. It noted there has been an increase in low cost businesses, some operating from residential homes (operating through the internet). For these businesses small margins ([REDACTED]%) are sufficient, however higher returns are required for companies that have significantly larger investments, in both staff and plant / equipment, as well as a broader commitment to the industry.

Key demand factor - seasonality and climatic conditions

Accensi advised that demand for formulated glyphosate is closely linked to seasonal conditions, as demand reflects weather variations and agricultural output levels. For example, as rain stimulates weed growth, this impacts the Australian market through facilitating higher demand for formulated glyphosate. Market demand is dependent on growth cycle for weeds and timing of crops. Accensi noted that, excluding seasonality impacts, overall the market demand (impacting total market size) has been fairly constant except for the past two years where it appears to have grown beyond what would be expected from normal seasonal variation.

Differences in product quality

Accensi advised that as a result of continued downwards pressure on price, imported Chinese product at reduced quality is starting to emerge (as Chinese producers are using inferior surfactants as a strategy to reduce overall costs and therefore prices).

Inventory levels

Accensi advised that as a result of reduced profit margins and (potential) significant price variations, all market participants are cautious about holding high inventory stocks. This may be problematic and cause supply shortages for high demand periods (e.g. following an unforeseen substantial rain pattern).

Product substitution

Accensi advised that formulated glyphosate represents the largest proportion (by volume) of the total global herbicide trade. It noted, while there are other herbicides which may partially be substitutable for formulated glyphosate (including paraquat), that there is no other non selective herbicide as safe to use and as readily available, and cheap.

**6 SALES****6.1 Introduction**

As part of its application, Accensi provided Customs and Border Protection with a line by line sales listing for the twelve months ending September 2011. At the visit we sought to verify the company's sales information to its financial accounts and source documents for selected sales in order to establish that the information provided was complete, relevant and accurate. Prior to the verification visit Accensi provided an updated sales transaction listing to include the December 2011 quarter (**Confidential Attachment SALES01** refers).

**6.1.1 Customers and Level of trade**

As previously mentioned, as a toll manufacturer, Accensi described their clients as chemical companies who utilise Accensi to toll manufacture their products on demand. Accensi's customers then sell the goods on to distributors who sell to end users such as farmers or the retail market. Accensi stated that they did not participate in the market beyond selling to the chemical company layer of the distribution channel.

Accensi stated that participating at the distribution or end user ends of the market would be counterproductive, as their toll manufacture customers would no longer see them as a supplier/partner but would instead see them as competition resulting in a loss of business. Additionally Accensi would need to invest in sales and marketing divisions in order to market a product at the distribution or end user level of the market.

Considering these factors, we believe that all sales by Accensi are at the chemical company level of the market and not in the end user segment.

**6.1.2 Related parties and arms length transactions**

In the application, Accensi claimed that no sales were made to related parties and that all transactions are made at arms length. During the visit we noted that there were two sales to [REDACTED] in Jan 2011, which was identified as a related company in Confidential Appendix A4 of the application.

We calculated that these sales represented less than [REDACTED]% of total sales for the year and thus were not deemed significant to warrant further investigation.

We also noted that sales of formulated glyphosate 360 g/L were made in 2011 to [REDACTED] ([REDACTED] [REDACTED]) [company], which Accensi advised were arms length transactions. As these sales represented less than [REDACTED]% of total sales for the year and as we found no evidence indicating that these sales were not arms length, they were not deemed significant to warrant further investigation.

Based on our assessment, we consider all transactions to have been at arms length.

### 6.1.3 Ordering, invoicing and delivery arrangements

Accensi described the ordering and invoicing arrangements as follows:

- o Customer contacts Accensi and requests an order of a registered glyphosate product.
- o The price is negotiated with the customer who indicates if they will supply the technical, surfactant, MIPA, drums or labelling or if Accensi will provide these materials on their behalf.
- o A price is agreed to by the customer and an order for manufacture is forwarded to the production department.
- o New products are reviewed for technical and safety issues using the quotation checklist, after which the arrival time of technical is advised by the customer and production is scheduled for either the QLD or WA manufacturing plants based on the ultimate destination of the finished goods.
- o Once the production order goes into the system the goods are produced as scheduled and a final yield is determined at the end of production.
- o Invoices are prepared after production taking into account the final yield and the goods go into storage at the manufacturing facility awaiting collection by the customer.
- o As the accounting / production systems are unable to track deliveries out of storage, a second invoice (with nil value) is generated when the goods are collected from storage by the customer.
- o The customer pays the invoice based on their credit terms.

### 6.1.4 Pricing

Accensi explained that price lists are not maintained and that the price is negotiated at the time of ordering, based on costs plus a margin. Depending on the volume of the order, the margin may be reduced to maintain capacity utilisation and to ensure fixed costs are covered across a period. The price includes up to [redacted] days of free storage at Accensi, however we were advised during the visit that most customers collect the goods much earlier than this period provides.

For sales made using Accensi's technical the price [redacted]

[redacted] *[Commercially sensitive pricing information]*.

#### Sales date

Accensi claimed that the date of sale was the date of the invoice, which reconciled to the date when the goods were entered into finished goods after which final yields have been determined. As the invoice amount was based on actual yield, whereas a quotation would have been calculated for theoretical yields, the invoice produced on completion of manufacture best represents the actual price paid for the goods.

#### Contractual arrangements

Accensi advised that up until approximately three years ago, a price list would have been maintained and contracts would be arranged and agreed to by each customer on [redacted] *[period]* basis. However, since then, the price has been negotiated on an order by order basis. Accensi explained that this change was due to increasing

competition within the market and fluctuations of the price of technical glyphosate making annual contracts less appealing to customers. Therefore, Accensi had no ongoing glyphosate contracts with their customers and each order is negotiated individually taking into account the current market conditions.

### 6.1.5 Credit Terms

██████████ standard credit terms across Accensi's sales with each customer having ██████████ credit terms ██████████ days. Accensi advised that generally its customers ██████████ [payment status]; however ██████████. ██████████ interest was charged after ██████████ days. Accensi provided a copy of the interest calculation spreadsheet and copies of the accounts statement (**Confidential Attachment SALES02**) for ██████████. [Commercially sensitive details re payment term]. During the downwards verification we noted that most customers paid approximately ██████████ [period re payment]. ██████████ [Commercially sensitive details re payment terms for customer].

### 6.1.6 Freight

Accensi claimed that all goods were sold ex-works and that the customer arranged for the collection of the goods from Accensi manufacturing facilities in QLD or WA.

There were some exceptions noted during the visit in which the payment terms were FIS to ██████████. Accensi advised that these related only to the ██████████ [name] branded product and that freight was included to the ██████████ warehouse only. Accensi advised that the freight costs were approximately \$██████████ /pallet for deliveries to ██████████ and were included in the invoiced price.

### 6.1.7 Rebates and discounts

Accensi advised that no rebates or discounts were payable to customers off invoice. During the price negotiations some customers may have negotiated a cheaper purchase price due to high volume; however any "discount" that they may have received was included in the invoiced price. They advised that there were no rebate contracts in place and no evidence of rebates was found during the visit.

## 6.2 Verification of domestic sales

### 6.2.1 Verification to financial accounts (completeness)

We sought to reconcile the sales data provided by the applicant to the company's management accounts to ensure completeness. Accensi provided a set of line by line sales data for both "Accensi technical" and "Accensi toll" for the investigation period. During the visit, Accensi advised that formulated glyphosate ██████████ g/L and ██████████ g/L had been excluded from the data set, and thus the sales data provided did not represent all goods sold. Accensi provided updated sales listings for all the goods, including formulated glyphosate ██████████ g/L and ██████████ g/L at the visit (**Confidential Attachment SALES03** refers). Subsequent to the visit Accensi also provided other updated application appendices as required.

Accensi provided a report from the Arrow accounting system which showed all "non like good" sales. Using the total from this report, plus the total of the "Accensi technical" and "Accensi toll" sales spreadsheet we were able to reconcile the value of all sales to the income statement for Accensi (for 2011).

While reconciling sales quantities, we noted that some transactions for two customers, [REDACTED] and [REDACTED] had incorrect volumes listed. Accensi explained that in generating the sales spreadsheet for Customs and Border Protection that the financial system data had to be processed using a purpose built SQL database which extracted the volume in L from the product code for each invoice line. Accensi noted that for pack sizes of less than 1L the system miscalculated the volume in L. During the visit these invoice lines were corrected, resulting in the volumes reconciling within 0.7%. We noted that the volume changes would need to be incorporated into updated Confidential Appendices A-6, which were subsequently provided.

### 6.2.2 Conclusion on completeness

We are satisfied that the revised sales spreadsheets provide a complete and relevant list of all sales of the goods by Accensi to the Australian market and are reliable for use in injury analysis.

### 6.3 Verification to source documents (accuracy)

Prior to the visit we selected the following *Accensi technical* and *Accensi toll* transactions from the sales lists for verification to source documents.

#### Accensi technical sales

Customer	Stock code	Invoice
[REDACTED]	[REDACTED]	170082
[REDACTED]	[REDACTED]	166368
[REDACTED]	[REDACTED]	168871
[REDACTED]	[REDACTED]	102340
[REDACTED]	[REDACTED]	168871
[REDACTED]	[REDACTED]	167384
[REDACTED]	[REDACTED]	168887
[REDACTED]	[REDACTED]	169538
[REDACTED]	[REDACTED]	169526

#### Accensi toll sales

Customer	Stock Code	Invoice
[REDACTED]	[REDACTED]	165489
[REDACTED]	[REDACTED]	102320
[REDACTED]	[REDACTED]	170662
[REDACTED]	[REDACTED]	166441
[REDACTED]	[REDACTED]	167704
[REDACTED]	[REDACTED]	165675
[REDACTED]	[REDACTED]	170951
[REDACTED]	[REDACTED]	167893

For each selected sale, Accensi provided the relevant:

- commercial invoice (and/or adjustment note/credit note as applicable);



- o purchase order; and
- o proof of payment.

The sales source documentation is at **Confidential Attachment SALES04**.

During the visit we noted that Invoice [REDACTED] did not reconcile to the sales spreadsheet with a variance of AUD \$[REDACTED]. Accensi advised that this may have been the result of a manual error while compiling the spreadsheet for Customs purposes. No other transactions were found to be in error.

#### Proof of payment

For each transaction Accensi provided a copy of the bank statement showing the customers payments into Accensi's designated bank account. For transactions where the amounts did not directly reconcile, the remittance advice outlining which invoices were paid or the debtors ledger were also provided to assist in reconciling the bank statement to the invoice.

We noted that the invoice amounts were paid in full for each of the selected transactions and there was no evidence of any off invoice rebates or discounts made to the customers.

#### **6.3.1 Conclusion on accuracy**

Based on the material provided we are satisfied that:

- o the invoiced amounts and sales details in the revised sales listing are accurate;
- o the invoiced amounts were paid by Accensi's customers;
- o the net proceeds and net transaction amounts within the revised sales list are accurate; and
- o the quantity (in L) is recorded accurately in the revised sales listing (see section 7.2 for sales volume calculation methodology).

On this basis, we consider the revised sales data is reasonably accurate.

#### **6.4 Conclusion on sales**

We have verified the revised sales data to source documents and to Accensi's income statement and we are satisfied that the data is accurate, relevant and complete.

**7 COST TO MAKE AND SELL****7.1 Introduction**

We explained to Accensi that we needed to be satisfied that the data submitted in the application was complete, relevant and accurate. We also explained that the company would have to demonstrate that the data could be verified and traced to financial statements and to source documents.

**7.2 Production volumes**

Accensi explained that its accounting system does not record production volumes of glyphosate products, so it used sales volumes for the purpose of calculating the CTMS. Accensi explained that as it generally only manufactures glyphosate to order there would not be a big variance between production and sale quantities. We consider this approach to be reasonable.

In addition the system only records the quantity of each package type (20L and 100L, etc), rather than recording the sales volume in L. In order to obtain the sales volume in L, Accensi exported the sales data to a database in which it could add an additional calculation field to multiply the pack size by the quantity to obtain the sales volume in L.

We asked Accensi to run the report from the database for the March quarter of 2011 for all products, which was subsequently provided. We noted that there was a 0.2% variance between the total cost of goods sold in the report and in Confidential Appendix A6, which we consider to be acceptable. We are satisfied that the total volume from this database report reconciles (despite the minor discrepancy) to the amounts used to calculate the unit manufacturing costs included in Confidential Appendix A6.

In verifying the CTMS we observed that the unit costs for the September and December quarters of 2011 were significantly higher for Accensi's glyphosate technical product. On further investigation it was found that the calculation field for a particular product line was incorrect, resulting in lower volumes. Accensi amended the database and provided a revised Confidential Appendix A6 (which also incorporated other changes to address discrepancies identified, discussed in preceding report sections) subsequent to the visit (**Confidential Attachment CTMS01 refers**).

**7.3 Verification of cost to make****7.3.1 Completeness**

As previously explained, Accensi's financial results are consolidated with those of Isnecca. The consolidated result is then incorporated into the financial statements for Herorich and audited. The audit of Herorich's financial statements for the year ended 31 December 2011 was not complete at the time of the verification visit. As discussed at section 4.2, Accensi provided us with a P&L statement for Accensi produced from its Arrow accounting system, as well as the consolidated statement for it and Isnecca for the year ended 31 December 2011, and subsequent to the visits

provided a statement from the group's auditor, Deloitte, confirming that these results have been used in the audit of the CK Life Science group accounts (see section 4.2).

Accensi explained its methodology for completing Confidential Appendix A6:

- It ran a sales and costing report from its database for all glyphosate products. This report includes the total direct costs, and separately, the total labour and overhead costs (which form part of the direct costs) associated with each sale.
- Accensi recorded the amounts for labour and variable overhead costs directly from this report in Confidential Appendix A6.
- In order to calculate raw material costs for Confidential Appendix A6, Accensi deducted the labour and variable overhead costs from the total costs.
- Fixed overheads were calculated by selecting the overhead items from the P&L that would be classified as fixed overheads and allocating them based on the proportion of glyphosate sales value to the company's total sales of all products.
- Manufacturing related depreciation was calculated in a similar manner to fixed overheads – by identifying the relevant items on the P&L and allocating them based on sales value.

We selected the March quarter 2011 on which to focus our verification of the completeness of the cost to make.

Given that the company based the variable manufacturing costs on the sales and costing report, we asked the company to run that report for all products it produces for the month of March 2011. We noted that there was a 0.2% variance between the total cost of goods sold in the report and the P&L. We were satisfied that the total costs, labour and overhead costs from this report matched the amounts in the P&L statement for the relevant month.

The costs in the sales and costing report are based on standard costs, derived from the bill of materials (BoM) for each product. We selected a product from the March sales and costing report and asked the company to produce the BoM. A discussion of the verification of the main raw material – glyphosate technical – is below.

We matched the amounts for labour and overhead costs from the BoM for the selected product to the sales and costing report, however observed that the amounts that matched the sales and costing report appeared to be derived from only the packaging component of the BoM. Accensi explained that the cost of formulating the bulk formulated glyphosate is included in the raw material cost in Appendix A6. These costs were not included in the costing report and variable manufacturing costs to avoid double counting. The majority of the cost is in the packaging component, with only a very small percentage of cost in formulating the bulk product.

We asked Accensi to explain how the standard cost of labour and overheads was calculated. It explained that these costs are updated about [redacted] [interval]. The unit standard rate is derived by [redacted] [basis]. Accensi provided the total labour hours for both plants ([redacted]) for 2011. We observed that the unit labour rate from the 2011 P&L statement was not too

dissimilar from the standard unit rate, which was reflected in the BoM. For overhead costs we [REDACTED] [basis] from the 2011 P&L statement [REDACTED] [basis] and obtained a unit rate of \$ [REDACTED] per hour. We observed that the overhead rate used in the BoM was \$ [REDACTED] per hour (which Accensi advised reflected standard costs).

We explained to Accensi that we require actual costs for our purpose, rather than standard costs. Accensi explained that the accounting system incorporates variances in the cost to manufacture in the P&L statement, however the accounting treatment is complex and the journals are consolidated for the entire company so it is not possible to establish variances specifically for glyphosate formulation. Given the overhead expense was not close to the actual expense we adjusted the overhead amounts in Confidential Appendix 6 downwards by [REDACTED]% (the variance between \$ [REDACTED] and \$ [REDACTED] per hour) to account for the variance between standard and actual costs. The overall impact was to reduce the unit CTMS by less than [REDACTED]% (per calendar year).

In verifying the fixed manufacturing costs we also observed that because the overhead rate in the BoM, which feeds into the variable overhead amount in Confidential Appendix A6, is [REDACTED] [basis], selecting particular cost items from the P&L statement that relate to fixed overheads and depreciation involves double counting these costs. Accensi amended Confidential Appendix A6 to remove this double count.

Documentation relating to cost completeness is at **Confidential Attachment CTMS02**.

#### Glyphosate technical

For "*Accensi technical*" toll manufacturing where Accensi provides the glyphosate technical, this represents the largest cost component in Accensi's production of formulated glyphosate. During the investigation period Accensi sourced glyphosate technical from Chinese and US suppliers.

We asked the company to demonstrate the accuracy of the standard cost for glyphosate technical from a selected BoM. The company provided a spreadsheet that records its purchases of glyphosate technical (by plant) throughout the investigation period. The spreadsheet records:

- o the cost of glyphosate technical;
- o cartage and wharfage costs;
- o lift on / lift off charges; and
- o Commission paid to purchasing agent.

The total cost of glyphosate technical is inclusive of delivery and commission charges. We observed that the unit cost of material in the selected BoM matched the weighted average unit cost derived from the spreadsheet at the relevant time period.

We requested copies of all the invoices and proof of payments associated with a purchase of glyphosate technical, including cartage and Commission in the last

quarter of 2010 for production in February 2011. We were satisfied that the spreadsheet accurately recorded all the relevant costs.

Source documentation relating to glyphosate technical purchases is at **Confidential Attachment CTMS02**.

#### MIPA

For "Accensi toll" manufacturing where the customer provides the glyphosate technical, MIPA represents the biggest raw material cost to Accensi.

We asked the company to demonstrate the accuracy of the standard cost for MIPA from a selected BoM. The company provided a spreadsheet that records its purchases of MIPA throughout the investigation period. The spreadsheet records:

- o the cost of MIPA;
- o cartage and wharfage costs;
- o lift on / lift off charges; and
- o Commission paid to purchasing agent.

The total cost of MIPA is inclusive of delivery and commission charges. We observed that the unit cost of material in the selected BoM matched the weighted average unit cost derived from the spreadsheet at the relevant time period.

We requested copies of all the invoices and proof of payments associated with a purchase of MIPA, including cartage and Commission in the last quarter of 2010 for production in February 2011. We were satisfied that the spreadsheet accurately recorded all the relevant costs.

Source documentation relating to MIPA purchases is at **Confidential Attachment CTMS03**.

#### Depreciation

Accensi provided a copy of its asset register for production assets as at 31 December 2011. The asset register shows the total depreciation expense for the year ended 31 December 2011. The amount on the asset register matched the annual figure on the P&L.

#### **7.4 Selling, General & Administrative (SG&A) and other expenses**

SG&A, finance and other corporate overheads were allocated using the proportion of glyphosate sales value to the company's total sales of all products. We were able to reconcile the total cost components for SG&A expenses to Accensi's P&L statement.

We compared Accensi's P&L statement to the consolidated P&L statement for Accensi and Isnecca. We observed that the annual expense for some cost items in Accensi's P&L statement was less than the annual expense in the consolidated P&L for Accensi and Isnecca. This reflected expenses which were attributed to Isnecca (e.g. certain legal expenses and depreciation) and not Accensi. To ensure that all relevant SG&A expenses has been correctly attributed, we reviewed all GL accounts to identify all relevant SG&A expenses for Accensi's formulated glyphosate sales. We noted that the [REDACTED] and

interest / financial components [REDACTED] had not been included in the CTMS (and were also not shown in Accensi's internal financial statements extracted from *Arrow*).

The revised Confidential Appendix 6 (discussed previously) included a revised SG&A component to incorporate these additional costs (and also to include new CTMS for formulated glyphosate [REDACTED] g/L and address volume discrepancies discussed at section 6.2.1). To support the revised SG&A and other costs, Accensi provided a detailed costing excel workbook.

The costing excel workbook and source documentation relating to SG&A is at **Confidential Attachment CTMS05**.

### 7.5 Conclusion

We have verified the cost data provided in Confidential Appendix A6. We are satisfied the revised data is complete, accurate and reliable and only includes costs in respect of domestic sales of like goods.

**8 INJURY****8.1 Applicant's injury claims**

The application claims that formulated glyphosate has been exported to Australia from China at prices lower than its normal value and that this dumping has caused material injury to the Australian industry producing formulated glyphosate. The application identified the injurious effects as:

- o loss of sales volume;
- o loss of market share;
- o reductions in prices and impacts on profit and profitability;
- o reduced revenues;
- o reduced capacity utilisation;
- o increased inventory levels;
- o inadequate returns on investment;
- o reductions in capital expenditure;
- o inability to attract capital to reinvest; and
- o reduced employee numbers and subsequent reductions in wages bill.

The application claims that material injury to the Australian industry caused by dumping commenced after imports of formulated glyphosate exported to Australia from China increased by almost 400% in 2010/11.

**8.2 Injury analysis period and approach**

Customs and Border Protection is examining the Australian market and the economic condition of the industry from 1 January 2008 for the purposes of injury analysis.

For the consideration of the application, the economic condition of the applicants was assessed, excluding the applicants toll manufactured products. This approach was utilised as the sales volume for other Australian manufacturers, which were used to calculate the total Australian industry's sales volume, included Nufarm's and Accensi's sales of "toll" manufactured product. Therefore to avoid double counting sales volumes of the toll manufactured products the applicants consolidated sales and cost data did not include toll manufactured products. For the purpose of assessing reasonable grounds of injury caused by dumping the exclusion of toll manufactured products from the analysis was acceptable, however, it was noted that the application claimed that injury *"is particularly evidenced in formulated glyphosate production that is toll manufactured..."*<sup>6</sup>.

For the purposes of this report to provide a comprehensive analysis of Accensi's performance in respect of total formulated glyphosate production and sales, the following chapter includes analysis for:

- o "Accensi technical" products, (where Accensi sources technical glyphosate); and

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<sup>6</sup> Application, page 29.

- o "Accensi toll" products (where the toll customer supplies the technical glyphosate).

As formulated glyphosate [redacted] g/L represented less than [redacted]% of total formulated glyphosate sales for 2008 to 2011 (with zero sales in the investigation period), it has not been included in the analysis in this section.

### 8.3 Volume trends (excluding market share)<sup>7</sup>

#### Total sales – all formulated glyphosate products

The following chart illustrates Accensi's annual sales volumes<sup>8</sup> for *Accensi technical* and *Accensi toll* manufactured formulated glyphosate products (at all strengths) during the period 2008 to 2011.

[Graph removed as Accensi considers it to be commercially sensitive to their company.]

This chart shows that Accent's total glyphosate sales volume has continually decreased since 2008, and considerably from 2010 to 2011. Of total sales volume from 2008 to 2010, *Accensi toll* sales accounted for over [redacted]% of the total formulated glyphosate sales. This proportion reduced from 2010 to 2011 by approximately [redacted]%.

#### Accensi technical sales

The following charts illustrate Accensi's annual and quarterly sales volumes for *Accensi technical* ([redacted] g/L, [redacted] g/L, [redacted] g/L and [redacted] g/L) formulated glyphosate products during the period 2008 to 2011.

[Graphs removed as Accensi consider them to be commercially sensitive to their company.]

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<sup>7</sup> A conclusion on market share will be made following analysis of data gathered at visits to the other Australian industry applicants and the importers of the goods.

<sup>8</sup> Note for the purposes of this report, production sales and unit price and costs data is shown by litres.



The charts show that the *Accensi technical* glyphosate total sales volume increased from 2008 to 2009, declined marginally from 2009 to 2010 and increased from 2010 to 2011. Since 2008, the sales volumes for all products at varying strengths have varied (either increasing or decreasing). Significant variances occurred for the 450 g/L product, as sales volumes decreased significantly from 2009, although increased in 2011. Since 2008, there has also been a significant volume increase for the [REDACTED] g/L product. Accensi explained that the formulated glyphosate market experienced an expansion between 2008 and 2011, which was partially reflective of the end of drought periods in Australia.

*Accensi toll sales*

The following charts illustrate Accensi's annual and quarterly sales volumes for *Accensi's toll* formulated glyphosate products (450 g/L and [REDACTED] g/L) during the period 2008 to 2011.

[*Graphs removed as Accensi consider them to be commercially sensitive to their company.*]

The charts show that the total *Accensi toll* glyphosate sales volume decreased from 2008 and significantly from 2010 to 2011. There has been a significant reduction in sales of toll manufactured 450 g/L product. As the significant majority of Accensi's sales are *Accensi toll*, these have a greater than proportionate impact on the trend for total sales volume (which shows a declining trend, despite an increase in Accensi technical sales from 2010 to 2011).

#### 8.4 Revenue effects

The application claims that the applicants have lost sales volume which has also resulted in reduced revenues.

##### Total revenue – all formulated glyphosate products

The following chart illustrates Accensi's revenue for *Accensi technical* and *Accensi toll* manufactured products (at all strengths) during the period 2008 to 2011.

[Graph removed as Accensi considers it to be commercially sensitive to their company.]

The chart shows that total sales revenue for all formulated glyphosate products and for *Accensi toll* formulated glyphosate decreased from 2008 to 2011. Total sales revenue for *Accensi technical* formulated glyphosate decreased from 2008 to 2010 and increased from 2010 to 2011 (which partially reflects increased sales volume for these products).

#### 8.5 Price effects

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

The following charts illustrate Accensi's weighted average annual and quarterly unit prices and CTMS for *Accensi technical* and *Accensi toll* formulated glyphosate products during the period 2008 to 2011.

##### Accensi technical sales

[Graphs removed as Accensi consider them to be commercially sensitive to their company.]

##### Accensi toll sales

[Graphs removed as Accensi consider them to be commercially sensitive to their company.]

The charts show that since 2008:

- there has been a downward trend (with slight variances by quarter) for unit prices for total *Accensi technical* formulated glyphosate products (which indicates price depression);
- there has been a downward trend (with slight variances by quarter) for unit CTMS for total *Accensi technical* formulated glyphosate products;
- the relationship between unit prices and CTMS for *Accensi technical* has remained relatively constant (which indicates no price suppression);
- there has been a downward trend (with slight variances by quarter) for unit prices for total *Accensi toll* formulated glyphosate products (which indicates price depression);
- there has been a downward trend (with slight variances by quarter) for unit CTMS for total *Accensi toll* formulated glyphosate products; and
- the decrease in unit prices has been proportionately greater than the decrease in unit CTMS (showing reduced margins) for total *Accensi toll formulated* glyphosate products (which indicates price suppression).

Pricing and CTMS analysis has also been completed by product strength and is at **Confidential Attachment INJURY01**. This analysis shows that for all products excluding [REDACTED] g/L formulated glyphosate, pricing and cost trends are reflective of total product trends.

#### **8.6 Profit and profitability effects**

The following charts illustrate Accensi's weighted average annual and quarterly unit profit and profitability *Accensi technical* and *Accensi toll* formulated glyphosate products during the period 2008 to 2011.

##### *Accensi technical sales*

[Graph removed as Accensi considers it to be commercially sensitive to their company.]

##### *Accensi toll sales*

[Graph removed as Accensi considers it to be commercially sensitive to their company.]

The charts show that unit profit for *Accensi technical* formulated glyphosate sales have decreased significantly since 2008, although marginally increased from 2010 to 2011. Profitability for these sales increased from 2008 to 2009; decreased from 2009 to 2010 and marginally increased from 2010 to 2011. Since 2009 there has been a significant decline in profit and profitability of *Accensi toll* formulated glyphosate sales.

### 8.7 Other injury factors

#### Assets

The application makes no injury claims in respect of assets.

#### Capital investment

Accensi advised that it has made a significant investment for formulated glyphosate production. Since 2008, it has invested \$[REDACTED] million to upgrade glyphosate production facilities (including installation of new production equipment and technologies, upgrading warehousing facilities and packaging equipment). Accensi's procurement of a site specifically for MIPA storage in QLD (costing AUD \$[REDACTED]) is also evidence of formulated glyphosate capital investment. [REDACTED] [future direction].

#### Research and development (R&D)

Accensi advised that it has undertaken investment in research and development related to production of formulated glyphosate, including through the development of new technologies and product formulations. It envisages R&D costs for formulated glyphosate in the next two years will be AUD \$[REDACTED].

#### Return on investment (ROI)

Accensi advised that its return on investment in relation to formulated glyphosate has decreased in 2011. Accensi noted that, taking into account the \$[REDACTED] investment in plant and land for MIPA storage the diminishing margins on formulated glyphosate will support the fact that Accensi's ROI in relation to this product decreased in 2011.

#### Capacity

As discussed at section 4.3, Accensi advised that its three designated glyphosate manufacturing vessels (in QLD and WA) are currently operating at less than [REDACTED] % capacity. They attribute this to the rapid rise in Chinese exports to Australia in 2010/11. This reduced capacity predominately reflects declined volumes of formulated glyphosate that is toll manufactured.

#### Employment

As discussed at section 4.3, Accensi's Confidential Appendix A7 shows [REDACTED] FTE assigned to production of like goods. At this stage a reduction on number of FTE is not shown, however Accensi advised that while number of FTE has not changed that the hours (shifts) worked by employees has reduced. This is shown for glyphosate production in WA, where the plant is currently operating for one shift only.

Productivity

The application makes no injury claims in respect of productivity.

Stocks

Data in respect of this indicator in Accensi's Confidential Appendix A7 shows an increase in inventory stocks from 2010 to 2011, however it is not clear whether this relates to like goods only. Accensi also noted that predominately formulated glyphosate is manufactured to order and minimal stock levels are maintained in storage.

Cash flow measures

The application makes no injury claims in respect of cash flow measures. Data in respect of this indicator is not shown in Accensi's Confidential Appendix A7.

Wages

Data in respect of this indicator is not shown in Accensi's Confidential Appendix A7.

**8.8 Summary of major injury indicators**

Based on the preliminary analysis detailed above, it appears that Accensi has experienced injury in the form of:

All products – total Accensi technical and Accensi toll formulated glyphosate products

- lost sales volume since 2008;
- reduced revenues from 2008 to 2011;

Accensi technical formulated glyphosate products (only)

- price depression, since 2008;
- reduced revenues from 2008 to 2010;
- reduced unit profit from 2008 to 2010 and no significant variation of profitability from 2008 to 2011;

Accensi toll formulated glyphosate (only)

- lost sales volume (with significant losses from 2010 to 2011);
- price depression, since 2008;
- potential price suppression, since 2008;
- reduced revenue from 2008 to 2011; and
- reduced unit profit and profitability, since 2009.

9 CAUSATION

We discussed with Accensi whether the alleged dumping of imported formulated glyphosate can be demonstrated to be causing material injury to the Australian industry (and Accensi). The following chapter examines the evidence provided to substantiate this claim (noting the information provided relates to Accensi only, which may or may not be indicative of the Australian industry). Subsequent to the visit, Accensi provided a document to address visit agenda items addressing causation (**Confidential Attachment CAUSATION01** refers).

9.1 Volume effects

Accensi claim that they have lost significant sales volumes for formulated glyphosate, specifically for toll manufactured formulated glyphosate (*Accensi toll sales*). To substantiate this claim, Accensi provided a summary of *Accensi toll* sales volume of 450 g/L formulated glyphosate for six key customers, for the period 2008 to 2011.

Client	2008	2009	2010	2011
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

\* Volume is '000 Litres

Accensi advised that this data shows a clear decline in sales volumes of 450g/L product in 2011 for most clients with the exception of [REDACTED].

Customs and Border Protection notes that sales volumes of *Accensi toll* formulated glyphosate products declined for all customers, excluding [REDACTED] from 2008 to 2011 (although sales volumes fluctuated within this period). We note that the most significant decrease (by approximately [REDACTED]%) in sales volume occurred from 2009 to 2010. We also note that for most customers the declining trend continued from 2010 to 2011, with two customers with zero sales volumes in 2011. This table supports the finding of lost sales volume for *Accensi toll* sales at section 8.3.

Accensi claims that this lost sales volume can be directly attributed to the significant increase (the application claims by 400%) in dumped imports of formulated glyphosate from China in 2010/11. At this stage, it is clear that Accensi has experienced lost sales volume, however whether or not the lost sales volumes to these six customers was due to dumped Chinese imports will need to be further investigated. Accensi noted that the following customers purchase from Australian manufacturers and imported formulated glyphosate from China; [REDACTED] [customers]. Views and evidence from these customers will be sought regarding sourcing supply from Chinese imports or Australian manufacturers (including toll manufacture).

## 9.2 Price effects

Accensi claims that their selling prices have been undercut by the imported Chinese formulated glyphosate (in the Australian market). The application claims that a comparison of selling prices (at the distributor level of trade) for imported formulated glyphosate to the Australian industry's selling prices shows significant levels of price undercutting (ranging between 14.6% and 49.0%). Accensi (and the application) also claim that, in certain circumstances, they have reduced prices to compete with the dumped imports. However, they have not been able to match all offers for imported Chinese formulated glyphosate if the price would be below Accensi's fully absorbed CTMS. Supplying product below the CTMS would have a significant negative impact on profit and profitability.

In assessing these claims in CON 183, Customs and Border Protection notes that based on the information provided there does appear to be some level of price undercutting for certain formulated glyphosate products

At the visit Accensi advised that the formulated glyphosate market in Australia is highly competitive, predominantly due to very low barriers to entry and evidenced by the large number of suppliers. To support claims of head to head competition, including price undercutting, Accensi provided emails from the following customers:

100 g/L, 360 g/L, 450 g/L, [REDACTED] g/L and [REDACTED] g/L (all prices below are AUD)<sup>9</sup>

- o December 2010 – Email correspondence with [REDACTED] showing quotes obtained for formulated glyphosate 450 g/L ([REDACTED] formulation) in 20L, 110 L and 1000 L packaging sizes for quarter four in 2010 (with delivery in January 2011). This email shows [REDACTED] seeking lower prices due to pricing pressures from cheaper imported Chinese product (selling at \$3.20 to \$3.30 (terms unspecified) L direct to farmers), as their customers were seeking comparable prices. [REDACTED] also indicates that it will source higher volumes dependant on lower prices being offered. Accensi advised that due to pricing pressures the final agreed price was \$[REDACTED] per 1000 L IBC which reduced from an initial quote of \$[REDACTED]. Accensi advised that the [REDACTED] c per L price reduction was "funded" from labour/overhead and profit components.
- o March 2011 – Email correspondence with [REDACTED] showing Accensi's prices for formulated glyphosate 450g/L (Accensi's formulation) in 20L (\$[REDACTED], April sale at 30 days) and 1000L (\$[REDACTED], April sale at 30 days) packaging types for quarter one in 2011. The emails show [REDACTED] advising that based on market intelligence, prices for 20L were at \$[REDACTED] per L (June sale and no interest) and \$[REDACTED] (June sale and no interest). This shows price under cutting for the 20L product. The emails also note that another importer ([REDACTED]) was selling [REDACTED] g/L product at a very low price of \$[REDACTED] per 20 L.
- o April 2011 – Email correspondence with [REDACTED] (Accensi's formulation) showing quotes obtained for formulated glyphosate 450 g/L, [REDACTED] L supply shuttle for quarter two in 2011. The emails provide evidence of pricing

<sup>9</sup> For the following section "Accensi technical" sales are referred to as "Accensi formulations" and "Accensi toll" sales are referred to as "customer's name (e.g. [REDACTED]) formulations".

- pressure as Accensi was unable to meet [REDACTED] price of \$[REDACTED] per L (noting that this was particularly due to exchange rates applicable to glyphosate technical prices).
- o July 2011 – Email correspondence with [REDACTED] [customer] showing quotes obtained for formulated glyphosate [REDACTED] g/L (Accensi's formulation) and 360 g/L (Accensi's and [REDACTED] [customer] formulation) in 1L bottles and 1000L IBCs for quarter three in 2011 (terms of sale were Free Into Store, [REDACTED]). This email shows that [REDACTED] [customer] sought a price of \$[REDACTED] per 1L bottle, but noted that imported Chinese product could be obtained for \$[REDACTED] per 1L bottle. It noted that price is a major factor in its purchasing decisions.
  - o July 2011 – Email correspondence with [REDACTED] showing quotes obtained for formulated glyphosate [REDACTED] g/L (Accensi's formulation) in 20L containers for quarter three in 2011. The emails show that [REDACTED] [customer] sought a price of \$[REDACTED] per container (terms unspecified) (subsequently revised to \$[REDACTED]) to be able to compete with imported 450 g/L and [REDACTED] g/L product. Accensi noted that the [REDACTED] g/L price was below their price for a 450 g/L product and therefore it could not be accommodated.
  - o August 2011 – Email correspondence with [REDACTED] showing quotes obtained for formulated glyphosate 450 g/L in 20L, 110L and 1000L packaging types for quarter three in 2011. The email shows that [REDACTED] [customer] was facing strong competition from imported product from China supplied by [REDACTED] and [REDACTED] and was seeking product comparable (and lower) wholesale price to enable it to compete with these imports. To accommodate this request, Accensi offered reduced prices for formulated glyphosate 450 g/L ([REDACTED] [customer] formulation) at \$[REDACTED] for 20L, \$[REDACTED] for 110L and \$[REDACTED] for 1000L.
  - o September 2011 – Email correspondence with [REDACTED] showing quotes obtained for formulated glyphosate 360 g/L and [REDACTED] g/L ([REDACTED] formulation) in various packaging sizes from [REDACTED] to 1000L quarter four in 2011 (to be delivered in February 2012). The email documentation shows that [REDACTED] [customer] would not accept a price above \$[REDACTED] per L (Delivered Duty Paid). It also shows that Accensi was unable to accommodate this price as it would be below the fully absorbed CTMS.
  - o September 2011 – Email correspondence with [REDACTED] [customer] showing quotes obtained for formulated glyphosate 450 g/L (Accensi's formulation) in 1000L IBCs for quarter four in 2011 (to be delivered in November / December 2011). The emails show Accensi's offer for \$[REDACTED] L in IBCs, which reflected a price increase in glyphosate technical (and limited supply for Accensi's glyphosate technical). [REDACTED] [customer] advised that it was likely the price would be too high for their customers.

Customs and Border Protection notes that the documentation evidences that the Australian formulated glyphosate market is highly competitive, which may also be attributed to competitive pressures from goods not sourced from China. However it is clear that the documentary evidence supports Accensi claim that price undercutting of the Chinese imports occurred in 2011 for both "Accensi technical" and "Accensi tol" products. As a result of the price undercutting Accensi either offered reduced prices or where they could not accommodate reduced prices (especially if the price would be below Accensi's CTMS) they lost sales volume. The evidence also shows





**10 UNSUPPRESSED SELLING PRICE**

USP and non-injurious price issues are examined at an early stage of an investigation and, where possible and appropriate, preliminary examinations are made during the application consideration period for the purpose of assessing injury and causal link and therefore the appearance of reasonable grounds for the publication of a dumping duty notice.

Customs and Border Protection generally derives the non-injurious price by first establishing a price at which the applicant might reasonably sell its product in a market unaffected by dumping. This price is referred to as the unsuppressed selling price.

Customs and Border Protection's preferred approach to establishing unsuppressed selling prices observes the following hierarchy:

- industry selling prices at a time unaffected by dumping;
- constructed industry prices – industry CTM&S plus profit; or
- selling prices of un-dumped imports.

Having calculated the unsuppressed selling price, Customs and Border Protection then calculates a non-injurious price by deducting the costs incurred in getting the goods from the export free on board point (or another point if appropriate) to the relevant level of trade in Australia. The deductions normally include overseas freight, insurance, into-store costs and amounts for importer expenses and profit.

Accensi has indicated that it will provide a submission to Customs and Border Protection in respect of a proposed USP.

## 11 ATTACHMENTS

Confidential Attachment No#	Attachment title
Confidential Attachment GEN01	Verification visit agenda
Confidential Attachment GEN02	Accensi's introductory PowerPoint presentation
Confidential Attachment COM01	Revised corporate structure for Accensi
Confidential Attachment COM02	Deloitte letter and financial reporting package
Confidential Attachment AUS01	Australian market document prepared by Accensi
Confidential Attachment AUS02	Accensi's Australian industry volume calculations
Confidential Attachment AUS03	ABS data and Accensi's import volume calculations
Confidential Attachment AUS04	██████████ [Company] factory to farm business model pamphlet
Confidential Attachment SALES01	Updated domestic sales transacting listings for 2011
Confidential Attachment SALES02	Interest calculation spreadsheet and ██████████ for June 2011
Confidential Attachment SALES03	Sales transactions for formulated glyphosate █████ g/L and █████ g/L for 2008 to 2011
Confidential Attachment SALES04	Commercial source documentation for selected domestic sales
Confidential Attachment CTMS01	Revised Confidential Appendix A6 (CTMS)
Confidential Attachment CTMS02	Documentation relating to cost completeness
Confidential Attachment CTMS03	Source documentation relating to glyphosate technical purchases
Confidential Attachment CTMS04	Source documentation relating to MIPA technical purchases
Confidential Attachment CTMS05	Source documentation relating to SG&A, finance and other corporate expenses
Confidential Attachment INJURY01	Customs and Border Protection's injury analysis and supporting calculations
Confidential Attachment CAUSATION01	Australian injury and causation document prepared by Accensi
Confidential Attachment CAUSATION02	Email documentation from Accensi's customers to highlight price undercutting and head to head competition
Non Confidential Attachment AUS01	ABS data for imports under tariff classification 2913.00.00
Non Confidential Attachment AUS02	ABS data for imports under tariff classification 3808.93.00