Historically, Australia was amongst the cheapest gas producers in the world. Until very recently, gas extracted in Australia stayed in Australia. Because it has abundant natural gas reserves, it meant Australian gas prices have stayed low by global standards. Affordable gas has been a key national advantage. It has been a boost for Australian industry, especially manufacturing.

Today, new technology has made it possible for Australian gas to be liquefied economically and exported, overseas. Multinational gas companies have been given licenses to extract Australian gas from major new gas fields and to export it, primarily to Asia. With exports now possible, gas companies will be able to attract the much higher Asian price for Australian gas and currently there is nothing to stop them from charging higher gas prices locally as well. (Confidential source)

In the recent years, media was full of articles about the effect of the exporting Australian gas on the local gas prices. Due to current unfavorable gas polices for the Australian users, the US Democrats, who want to maintain preferential access to cheap gas for local manufacturers, are citing Australia as an example of how not to do policy. (Confidential source)

For more than a decade wholesale gas prices on the east coast of Australia have remained relatively stable, typically averaging around AU$3 to AU$4 a gigajoule (GJ). But today domestic and international factors are affecting both supply and demand for natural gas. Industrial consumers of gas on the east coast if Australia have already been put on notice that the next generation of gas supply arrangements will be based on export parity value of the gas – that is the purchase price in north Asia adjusted for freight and processing cost to convert the natural gas into LNG. (Confidential source)

Furthermore, according to a graph below, the natural gas price in Australia in the 2014/2015 financial year trended between AU$4.00 and AU$3.5 per GJ(*) which is on the par with the natural gas prices in US, and lower than natural gas prices in Europe, UK and Asia (Confidential source) (see Table 1 (Confidential source))

* Conversion: 1 GJ = 0.94708628903179 MMBtu

Table1 – Natural Gas Spot Market Daily Price History July 2009 to September 2015

Historically, Australia had low gas prices compared to global standards because on the east coast of Australia there was no infrastructure to liquefy the gas and export to the world market. Currently, Australian producers are becoming less competitive on the world market, largely due to international energy companies having access to and being able to export Australian gas without prioritising domestic supply. Unless there are measures implemented on the favorable supply and affordable prices for Australian industries, they will remain less competitive, compared to some other parts of the world. Australia is the only country where international energy companies can access and export gas without prioritising domestic supply. It is also the only major gas producing country suffering serious gas shortages and sharply rising prices as production increases. (Confidential source)

Furthermore, most of Australia’s current LNG production is exported to Asia; more than 80 per cent is exported to Japan, while China and Korea account for much of the remaining share.

Even though natural gas in Russia is perceived to be the cheapest in the world it is currently battling the strong competition from U.S, Iran, Venezuela, Brazil, East Africa and even Australia, according to Dr. Mitrova, Head of the Oil and Gas Department at the Energy Research Institute of the Russian Academy of Sciences. In terms of pricing, she said, the range for the domestic market was approx. US$4-4.5/mm BTU in July 2014. (Confidential source)

Major chemical producers in Russia and US have access to slightly cheaper gas in comparison to Australian producers. However, the problem is not in the gas prices in Russia and in other parts of the world, but in policymaking in Australia, which, currently fails to safeguard local industries from the effects of price rises due to increasing LNG gas exports from the country.

Australia holds an enviable supply of natural gas. But, unlike every other gas-exporting country, it has no laws to keep a certain amount of extracted gas onshore, driving up prices and hurting consumers and manufacturers. (Confidential source)

Governments should avoid poorly designed intervention. Instead, they should remove barriers to a healthy market, and ensure that all Australians share in the value of locally available gas. (Confidential source)

Therefore, since Russian gas isn't the cheapest in the world & Australian gas, in the period under review, is only slightly more expensive, we believe, that Normal Value for Ammonium Nitrate should not be calculated based on the gas price for European manufacturer's/at the German border. Germany is not a major global producer of Ammonium Nitrate and is not a major supplier to the European or global market. Calcium Nitrate, because it is less security sensitive than Ammonium Nitrate, is the Nitrogen fertilizer of choice in Germany and many other parts of Western Europe.

Australian Ammonium Nitrate Market

The Australian Ammonium Nitrate market is estimated to be of the order of 2.1 to 2.2 Million te per annum. However Australia is somewhat unique in that it is one of the few markets in the world where there is a major production base for Ammonium Nitrate but no significant demand in the agricultural industry.

In fact we estimate the size of the Australian AN agricultural / horticultural market to be to be less than 30,000 te pa with the balance of the production being used in the mining and quarrying industry.

Historically Australian imports of Ammonium Nitrate have been of the order of 300,000 te per annum and a significant proportion of this was imported by domestic producers to supplement their own production and satisfy the burgeoning demand on the back of the mining boom.

However this rapid growth in demand led Orica, IPL and CSBP to independently make decisions to invest in new or expanded capacity without due regard to the each others plans and now this expanded manufacturing capacity has recently come on line (or about to come on line).

This oversupply situation is apparent to all participants in the mining market and end user customers have negotiated lower prices and more favorable supply arrangements than the industry has seen for 5 or so years. The motive of the participants is to load their plants at or near manufacturing capacity by securing customer supply contracts whilst making it difficult for new or expanded capacity to be loaded.

This overcapacity is reflected in the drop in imports – now 50% lower (140,000 te pa) than recent historical levels.

A closer examination of imports over the past 18 months clearly indicates minimal volume of Russian product 2,600 te and the imports by Orica into North West Australia from its new Indonesian plant – an attempt to fill its capacity and seed the market ahead of its own investment which is due to come on stream in NW Western Australia early next year.

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Confidential attachment 1 – Ammonia SE Asia FOB vs AGAN FOB Black Sea from [confidential source]