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Point 3

The linkage between controlled pricing of natural gas and the fair market price of AN (in any form) has not been made by the local industry request for continuation in the authors opinion in any available public report.

As is known natural gas is used for the production of ammonia which in turn is used in the manufacture of nitric acid and in turn AN. It is also known that ammonia is used in the production of urea, UAN and many other fertiliser products.

Whilst gas prices are significant in the “cash cost” to produce ammonia they are important but not significant in the total cost to produce ammonia and therefore AN solution, HDAN and LDAN.

Natural or coal seam gas is typically used at rates between 34 and 50 gigajoules (Gj) per tonne of ammonia produced.

The rate varies according to the age of plants and the technology used. It is a well known fact that Russian ammonia and HDAN plants are in general over 30 years old and typically twice to three times the size of Australian based ammonia plants with many using 50 Gj per tonne of ammonia. New modern plants such as Burrup Fertiliser Limited (BFL) in Western Australia (WA) would use a nominal 34 Gj per tonne of ammonia produced.

The price of both natural gas and coal seam gas varies significantly from country to country and within many countries. Russian gas was once the lowest priced gas available but today it can be shown that gas prices in many other locations are lower than Russian gas prices. The Middle East and northern Africa as examples have gas prices lower than Russia and are considered the low cost producers of ammonia.

It is suggested that global gas prices range between USD $1.00 per Gj and USD$12 per Gj. Typical gas prices in Australia range from USD$2.50 to USD$6 per Gj and an average global gas price used in the manufacture of sea borne traded ammonia reflects a tighter price range between USD$1.00 per Gj and USD$3.00 per Gj. It is also well documented that BFL has secured a very low gas contract that allows it to be rated as one of the world’s lowest cost ammonia producers. It is also reported that both Orica and CSBP have purchased ammonia produced at BFL for the purpose of manufacturing AN in their Australian operations. The question can be asked “ What if Orica or CSBP purchase low cost ammonia from Russia to produce AN in Australia?” Would that constitute dumping as no injury would be incurred by the local AN industry but arguably the end users would not see any benefit.

To produce 1000 kilograms of AN solution requires 450 kilograms of ammonia and hence the gas consumption of AN solution is typically 15.5 Gj per tonne of AN solution for world best practices to 22 Gj for older less efficient plants such as those used in Russia.

As can be easily determined AN solution produced with gas costing USD 3.00 per Gj (the high end of ammonia gas range) would incur a total gas cost per tonne of AN solution of between USD$47 and $66.

This cost whilst important is not significant in the overall selling price or the cost to produce AN (in any form). It can be further shown that for each one USD price variation the cost movement of AN solution only varies by USD$16 to 22 per tonne which again given the range of gas prices used for sea borne traded ammonia is important but in the authors opinion not significant..

Whilst the total cost to produce AN solution varies from company to company it is typically made up of the following components;

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Total Cost= Cash Cost plus Non cash costs
Cash Costs typically include;
 gas
 catalyst
 direct labour
 government or third party payments necessary to produce or sell
 distribution charges to available markets
Non cash costs typically include;
 depreciation & return on capital
 interest
 annual maintenance charges
 general marketing costs
 administrative and overhead charges
 profit
the additional cost to produce HDAN and LDAN require both additional capital, labour, energy as well as a loss of some process efficiency.
It is also a matter of public record that CSBP, Orica and IPL all have stated that they require at least 18% Return on Net Assets (RONA) or equivalent financial measurements whereas other global producers of AN have investment decision at levels approximating one third of these values. This return on capital and distribution costs are the largest costs in the price of AN not the gas price.
As stated Russian plants are typically fully depreciated, have significantly lower labour and maintenance costs, have an advantage in the economy of size combined with a gas price that is competitive to many other countries producing AN.

As stated the author has no reason to doubt the accuracy of the findings in relation to natural gas pricing but believes that gas pricing in Russia whilst important is not a significant factor in the total cost of AN. This submission to Customs and Border Protection puts the alternate view that whilst natural gas may be a controlled input it has not resulted in any suppression of AN prices in Russia. Furthermore the Russian market for total AN can be broken into HDAN used for agricultural purposes and AN solution used for the manufacture of explosives and a smaller volume of LDAN for use as ANFO. Whilst the author has relied upon private correspondence with a Russian explosive manufacturer to ascertain that there are no price controls on AN the author sought but could not find on the public record any reference to the purchase price of AN solution (if any) by the world's largest explosive manufacturers which could have been compared to other AN prices for Russian AN to determine a relationship between Russian AN pricing and export AN.

Point 4
Price Determination and Suggested Measures
The author believes there is sufficient data to demonstrate that whilst natural gas pricing is important it is not significant in determining the final price of AN in Russia or internationally. The most significant items are freight to available markets and return on capital investments. It can be further demonstrated that Russian producers also have significant economies of scale in production costs as well as lower operating costs when compared to many other producers.

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It can be shown that the Russian market for AN is dominated by agricultural use with a small but important market for use in explosives. The agricultural market is seasonal whereas the use in explosives is generally a consistent demand month by month. Within Russia it can shown that there is a price differential associated with large seasonal purchases of HDAN to the significantly smaller demand for explosive manufacture. It is also noted that volume/ price relationships exist in the supply contracts for explosives.
As noted Russia producers of HDAN have larger capacities than the current Russian market demand requires hence Russian HDAN FOB export prices are typically determined by the value of N in the markets that the producers consider will provide the highest net back to the producer. In markets where HDAN (34% N) must compete with either ammonia (82%N) , Urea (46%N) or UAN (28 -32% N) the export FOB price of HDAN can be shown to be determined as a function of distribution costs and the products they compete against and rarely are determined by producer cost . The exporter has the option to meet market prices and participate in that market or look for other markets. Whilst it may have been possible for Russian producers to match any global market price of N a decade ago the increases in gas price within Russia as well as the increase in transportation costs within and from Russia have seen Russian HDAN producers lose market share in what was considered their traditional markets.
As noted CSBP has a dominant market share in the supply of LDAN which is mainly sold in WA. There is little or no competition from other local manufacturers hence the use of CSBP as a price determinant also has a factor for market dominance built into the price. It can also be verified in public records that the Australian producers of AN all achieved or exceeded their stated financial objectives therefore it is a fair assessment that the non injurious price has at least 18% return on capital or greater built into the result..
Many global producers seek a return equal to one to two percent above the prevailing bank lending rate and whilst 18% RONA or equivalent may be seen as the Australian standard rate of return for the AN industry it is not a global standard.

It is understood that

“Dumping duties may be applied where it is established that dumped imports have caused or threaten to cause injury to the Australian industry producing like goods. The level of dumping duty cannot exceed the margin of dumping, but a lesser duty may be applied if it is sufficient to remove the injury.”

It appears to the author that it is an important part of the non injurious price determination that you establish a fair and reasonable price differential at which end users would stop buying AN solution and go to the higher cost HDAN meltdown option to manufacture emulsions. The author believes this range would be between AUD$40 and $65 per tonne based upon volume of emulsion produced and reliability of supply of AN solution.

Previously the local industry has argued that

“The Australian industry has claimed that Russian manufacturers continue to have a cost advantage over other suppliers of ammonium nitrate due to the government control over natural gas and this advantage (highlighted in the form of dumping) is likely to continue into the future.“

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The author's research suggests that HDAN can be purchased from China as example at prices equivalent or lower than Russian HDAN on an equivalent FOB basis.
Similarly it is suggested that Russian AN producers have a good knowledge of the Australian nitrogen market as a result of the decade long anti dumping measures that have been in place. From discussions that the author has had with an AN producer and AN traders in Russian AN products they have discounted Australia as a potential agricultural market but recognised that Australia is an important explosive market and treat any potential sale as “opportunistic but at significantly higher prices than can be achieved in the agricultural sector”. The comparison of selling prices to other countries does not reflect the volume and purchase price relationship nor the competing value of N that drives market prices in most countries.

As stated elsewhere it is important that this price differential to switch from AN solution to HDAN be understood before a final determination of injury be fully understood. Equally important in the writers opinion is the determination of the availability or guarantee of supply of AN solution to all emulsion manufacturers to confirm that they can access such supplies at fair market prices.

Again the local industry has previously argued that;

“The Australian industry claimed that historically, low density ammonium nitrate has been imported by large mining companies and these imports have displaced locally produced product.”

The author cannot comment on the intent of “large mining houses” in relation to imports of LDAN but it is the authors experience that such mining houses that import LDAN, do so as a last resort if they cannot be guaranteed supply by local AN manufacturers. Such guarantees of supply are very important to mining contractors when bidding directly to mining companies in competition to Orica or Dyno Nobel. It is hoped that the larger end users of LDAN such as but not limited to BHP Billiton, Rio Tinto, Glencore and Anglo can inform you of the facts surrounding their purchases of overseas LDAN.

The author notes that it has been established that Australia is a LDAN market not a HDAN market. Russia produces little LDAN and it has been argued that Russian imports are of low quality. Whilst there is a potential of substituting HDAN for AN solution that will only occur if pricing of AN solution significantly differs from HDAN and even then a total conversion to HDAN would represent less than 12% of total AN sales in Australia.

The author believes that there is sufficient information contained within this submission (that can be verified by independent sources) that may allow you to reassess the previous review findings such that;
 No anti- dumping measures should be applied where Russian HDAN is used for;
 agriculture use
 manufacture of water-gel explosives and
as LDAN and AN solution do not compete in these markets and no injury to local producers would occur.
 Whilst HDAN can and does from time to time substitute AN solution that substitution is a factor of not only price but ability to purchase on long term supply contracts AN solution. It can be

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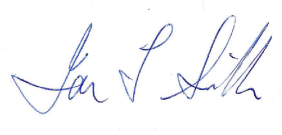
shown that any substitution would have a small and potentially non injurious consequence to Australian AN manufacturers who have demonstrated that they can compete and sell LDAN into neighbouring country explosive markets against all other global suppliers.

 Russian ammonia, nitric acid, urea, ammonium nitrate and urea ammonium nitrate are not low cost goods as a result of low natural gas prices that cannot be obtained in other countries including Australia. It is generally acknowledged that gas pricing is no longer controlled in Russia but it is controlled in Egypt, Iran and Indonesia as examples. Furthermore even though natural gas pricing is controlled it can be shown that gas pricing is important but it is not significant when determining the total cost build up to produce and sell any of these products. The basis of determining that Russia continues to “dump” based upon sales prices to other countries does not take into effect that Russian goods need to compete on an “N” basis with other goods. It is accepted that in doing so Russian producers of nitrogen based fertilisers may in some countries cause injury to local producers and hence be dealt with appropriately. Given that Australia is a LDAN and AN solution market with very limited opportunities for HDAN to impact more than an estimated 12 % total market it seems to the author that a continuation of anti dumping measures would act as a “barrier to competitiveness” for many smaller explosive manufacturers rather than as a protection to local industry.

Australian Nitrogen Management Pty Ltd is a wholly owned subsidiary of Cape Byron Energy Media & Consultancy Pty Ltd. The company was established by the author to develop opportunities in the Australian nitrogen sector including local manufacture and importing of nitrogen products most notably low density ammonium nitrate.

The author again thanks your commission for the opportunity to present the views of Australian Nitrogen Management Pty Ltd.

Yours faithfully



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