Australian industry verification report

Verification and case details

Initiation date	28/06/2023	**ADN**	2023/038
Case number	629		
The goods under consideration	Ammonium Nitrate		
Case type	Continuation Inquiry		
Australian industry	Orica Australia Pty Ltd		
Location	Onsite – 1 Nicholson Street, East Melbourne VIC 3002		
Verification from	25 July 2023	to	26 July 2023
Inquiry period	1 April 2022	to	31 March 2023

Contents

Introduction

Orica Australia Pty Ltd (Orica) provided data to the Anti-Dumping Commission (the commission) in relation to Continuation Inquiry 629 (case 629) into Ammonium Nitrate from China, Sweden and Thailand.

A verification team (the team) has verified whether the data Orica submitted is complete, relevant and accurate for use in case 629. Anti-Dumping Notice (ADN) 2016/30 describes the commission's verification procedure.

This report explains the team's key findings, including the evidence considered and material issues identified. Where Orica or the team materially revised the submitted data, this report outlines the nature, extent and outcomes of these revisions.

The commission prepared this report to publish on the electronic public record for case 629.

Verification teams are authorised to conduct verifications under sections 269SMG and 269SMR of the *Customs Act 1901* (Cth) (the Act).[1]

[1] All legal citations in this report are to the Act unless otherwise stated.

1 Company background

1.1 Corporate structure and ownership

Orica is wholly owned by Orica Limited (the group). Orica is part of the Australia, Pacific and Asia (APA) segment of the group. The other segments being Latin America (LATAM), North America and Europe, Middle-East and Africa (EMEA), Orica Monitor and Global Support. In addition to Orica, the group has a number of other ammonium nitrate production facilities across the globe either fully or partially owned by the group.

This has not changed since the last verification was conducted.

1.2 Related parties

The team examined Orica's operations and financial records to assess the extent of linkages and relationships in production, procurement or sales to related entities.

1.2.1 Related suppliers

Orica has made some purchases from its related party joint venture in Indonesia during the period on an arms-length basis.

1.2.2 Related customers

The team found evidence that there were a small number of sales to related customers however the sales volumes were immaterial.

2 Like goods manufactured in Australia

2.1 Manufacturing in Australia

In the joint application, it was claimed that the Australian industry producing ammonium nitrate was comprised of the applicants:

- CSBP Limited
- Orica
- QNP Limited and
- Dyno Nobel Asia Pacific Pty Limited.

2.1.1 Production process

Orica has 2 ammonium nitrate production facilities located on Kooragang Island in New South Wales and in Yarwun, Queensland.

The Kooragang Island site is a fully integrated production facility that uses natural gas as the primary raw material ingredient to produce ammonia and then ammonium nitrate.

The Yarwun plant is equipped to produce ammonium nitrate from ammonia. The Yarwun plant sources ammonia either from Orica's Kooragang Island facility or from third party suppliers.

The Kooragang Island site operates the following production facilities:

- an ammonia plant with nameplate production capacity of 360,000 tonnes per annum used internally as a raw material in the production of nitric acid and ammonium nitrate
- three nitric acid plants with total nameplate production capacity of 340,000 tonnes per annum
- two ammonium nitrate plants with total nameplate production capacity of 430,000 tonnes per annum.

The Yarwun manufacturing site operates the following production facilities:

- three nitric acid plants with total nameplate production capacity of 418,000 tonnes per annum
- ammonium nitrate plants (2 solution and 2 prill plants) with nameplate production capacities of around 500,000 tonnes per annum
- an ammonium nitrate emulsion plant
- a sodium cyanide plant.

The above ammonium nitrate plants, combined with a number of secondary plants that convert ammonium nitrate, produce the 3 key categories of ammonia nitrate:

- ammonia nitrate solution (ANSOL)
- ammonia nitrate prill
- ammonia nitrate emulsions.

During the visit, Orica detailed the production process applicable to each of its plants and provided supporting documents to evidence its claims regarding production of ammonia and ammonium nitrate.

Based on details provided during the visit and the findings in prior investigations and inquiries, the team is satisfied that at least one substantial process in the manufacture of ammonium nitrate is carried out in Australia by Orica.

2.2 Verification of model control codes

Table 1 below provides detail on the model control code (MCC) sub-categories were determined and verified to source documents.

Category	Sub-category		Sales data	Cost data
Density	**H**	High	Mandatory	Mandatory
	L	Low		
Form	**P**	Prilled	Mandatory	Optional
	G	Granular		
	O	Other form		

Table 1 MCC sub-category determination

Consistent with previous verifications, Orica previously provided all the relevant documents and information to identify the density and form of the ammonium nitrate that it produced. Orica does not produce high density ammonium nitrate (HDAN) in the same form as the goods exported to Australia. However, Orica noted that it produces alternative products, namely ammonium nitrate solution, which is used in the same application as HDAN.

In addition, Orica's Yarwun plant produces a solid grade of ammonium nitrate which is compatible with emulsion manufacture. This product can be used in applications as a substitute for imported HDAN and ammonium nitrate solution, including:

- as a dopant in explosives
- as an emulsion raw material
- as fertiliser raw material.

Orica noted that product density is not necessarily the most relevant factor in the Australian market. A more important factor is the additives used in the manufacture of solid ammonium nitrate. Additives provide certain characteristics, including reduced product breakdown from temperature cycling and to improve handling. It is more important that these additives are compatible with other components in the emulsion manufacturing process and final explosives product.

2.3 Like goods

Like goods are defined under section 269T(1) of the Act as:

> goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration.

Consistent with previous verifications, the team considers that the like goods manufactured by Orica are identical to, or have characteristics closely resembling, the goods exported to Australia. An outline of this assessment is provided below.

Physical Likeness

Ammonium nitrate produced by Orica is similar in physical appearance and specification to the goods exported to Australia by producers in China, Sweden and Thailand.

Production likeness

The imported and locally produced AN is manufactured via similar production processes.

Commercial likeness

The imported goods compete directly with the locally produced goods and are interchangeable in end-use applications.

Functional likeness

The imported goods and the locally produced goods perform the same function and are used in the same end-use applications (and are interchangeable).

2.4 Like goods assessment

Consistent with previous verifications, the team is satisfied that:

- ammonium nitrate manufactured by Orica are like goods to the goods under consideration in this inquiry. [2]
- at least one substantial process of manufacture of ammonium nitrate is carried out in Australia. [3]
- the like goods were, therefore, wholly or partly manufactured in Australia by Orica Australia. [4]

[2] Section 269T(1).

[3] Section 269T(3).

[4] Section 269T(2).

3 Australian market

The assessment in this chapter is a preliminary assessment by the verification team. The matters in this chapter will be further considered in the commission's statement of essential facts (SEF).

3.1 Australian market background

Ammonium nitrate produced in Australia is primarily used as a raw material in the production of explosives consumed by the mining and quarrying industries and to a lesser extent in the construction industry.

While ammonium nitrate is also used as a fertiliser by the agricultural industry, it has limited usage in Australia. This is due to its classification as a dangerous good and the security protocols applicable to transport and storage arrangements relative to other nitrogenous fertilisers (such as urea and urea ammonium nitrate solution).[5]

In addition to local production, the Australian market is supplied by imports from a range of countries.

3.2 Australian market structure

3.2.1 Marketing segmentation and end uses

Orica noted ammonium nitrate usage occurs in the following four regions in Australia – North East, South East, Pilbara and South West.

Orica provided the verification team a confidential version of information indicating its estimates of the total share of ammonium nitrate used in each region.

Orica explained that the end users of the product are typically direct to mining or quarry customer mine sites as part of formulated bulk explosives. There is also a percentage of ammonium nitrate sold through an indirect channel to competitors.

3.2.2 Distribution arrangements

Orica supplies ammonium nitrate into the market via two channels. One being to the wholesale market without the provision of associated blasting services. The second being as part of its formulated explosives product range. In either case the product is delivered directly to the mine sites operated by the relevant mining and quarry customers. Orica also engages in the sale of ammonium nitrate to competitors via indirect channels.

Consistent with previous verifications, Orica advised that its domestic sales are principally completed through long term supply contracts, typically running for between 2 and 5 years. Tendering for these contracts usually commences about 12 to 18 months before the start of the contract. A small amount may also be sold in the spot market on an ad hoc basis. The

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[5] Ammonium nitrate is classified under the Australian Dangerous Goods Code as a category 5.1 Dangerous Good. It is also classified as Security Sensitive Ammonium Nitrate (SSAN) by the Australian Government and state regulators. Licences issued by relevant state authorities are required to manufacture, sell, purchase, transport and store ammonium nitrate. There are also restrictions on the amount of ammonium nitrate that can be received at a designated port at any one time.

end users of ammonium nitrate (i.e. mines) may enter into agreements with explosive services providers, who in turn may enter into long term supply contracts with ammonium nitrate suppliers.

Orica primarily sees itself as a mining industry service provider. In addition to its activities involving the manufacture and sale of ammonium nitrate, in either the raw form or as part of an explosive, Orica offers explosive loading services, cyanide and other technology-based services.

3.2.3 Supply

Consistent with the previous verification, Orica's sales of ammonium nitrate occur predominantly through existing supply contracts which are typically for the provision of mining services (predominantly blasting) which in turn includes the provision of Ammonium Nitrate.

As noted above, Orica also sells some volume of ammonium nitrate directly to other mining service providers (either under contract or as spot sales).

3.2.4 Demand

Orica Australia notes that the following factors drive purchasing demand for the product:

- Product quality
- Availability of supply
- Reliability of supply
- Flexibility to change volume and or timing of delivery
- Price

Orica notes that price and surety of supply are key considerations where customers select the goods however a matrix of decision criteria is used by customers.

3.3 Australian market pricing

Consistent with previous verifications, Orica advised that the price setting for all its long-term contracts is completed through tendering processes. Some contracts allow for price adjustments linked to movements in input costs for ammonia and natural gas, labour costs, the CPI and freight (rise and fall provisions).

The operation of these price adjustments is negotiated with each of the buyers during the tendering process. Orica claimed that large customers commonly explicitly reference the price of ammonium nitrate for inclusion in contracts when negotiating contracts.

4 Verification of sales completeness and relevance

4.1 Background

The team verified the relevance and completeness of Orica's data by reconciling selected data submitted 'upwards' through management accounts to audited financial accounts. The team reconciled total sales value and quantity to management reports, with particular attention given to including all relevant transactions and excluding all irrelevant transactions. The total value from the management reports is then reconciled to the total revenue figure reported in the audited income statement.

The team verified the completeness and relevance of Orica's domestic sales listing. The team reconciled the sales listing to audited financial statements in accordance with ADN 2016/30.

The team verified the relevance and completeness of the sales data as follows:

1. The team reconciled Orica's sales value and volume of ammonium nitrate products for the investigation period to the financial system.
2. The team observed the value and volume of all of Orica's sales for its financial year in its financial system.
3. The team reconciled this value to the Orica APA group's total revenue for the financial year.
4. The team reconciled the Orica APA group's total revenue to the audited financial report for Orica Limited.

Orica makes sales which include ammonium nitrate as a component of the total sale – for example, a sale of bulk explosives. Orica estimated the equivalent ammonium nitrate value and volume of these sales in order to isolate the price of ammonium nitrate. The estimate involved using the ex works ammonium nitrate price for each customer and the total sales volume (on an ammonium nitrate equivalent basis) to each customer.

The team verified how Orica had performed this estimate by:

1. reconciling the per customer ex works ammonium nitrate prices to Orica Australia's accounting system
2. reconciling the sales volume for each customer to Orica Australia's accounting system.

The team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

4.2 Import sales by Orica

Orica imported ammonium nitrate from its related party in Indonesia during the inquiry period. These imports were separately identified from Orica's own production.

4.3 Export sales by Orica

Orica made a small volume of export sales during the inquiry period. These sales were not included as part of the commission's assessment of Orica's economic condition.

4.4 Sales completeness and relevance finding

The team is satisfied that the sales data provided in the application by Orica is complete and relevant.

5 Verification of sales accuracy

The commission typically verifies sales as accurate by reconciling a selection of volume, revenue and other key data in the sales listings down to source documents. ADN 2016/30 further describes this verification process.

The team verified whether the export and domestic sales listings Orica submitted are accurate by reconciling them to source documents, consistent with ADN 2016/30.

The team did not identify any issues. The team detailed this process in the verification work program and its relevant attachments in **Confidential Attachment 1.**

5.1 Related party customers

Analysis of Orica's sales record found it has sold ammonium nitrate products to related customers during the period examined, i.e. 1 April 2022 to 31 March 2023. The sales volumes were considered immaterial due the relatively low number of transactions that occurred.

The team nonetheless analysed the prices for sales to unrelated and related customers and did not find evidence of price discrimination between customers. Orica's sales to related customers were therefore considered to reflect arms length transactions.

The team is satisfied that company's selling prices for goods to related customers can be relied upon in the assessment of the economic condition of the Australian industry.

5.2 Sales accuracy finding

The team is satisfied that the sales data Orica submitted is accurate. Details of this verification process are contained in the verification work program and its relevant attachments, at Confidential Attachment 1.

Accordingly, the team considers Orica's sales data suitable for analysing the economic performance of its ammonium nitrate operations from 1 April 2022 to 31 March 2023.

6 Verification of CTMS completeness and relevance

6.1 Background

The team verified the relevance and completeness of Orica's data by reconciling selected data submitted 'upwards' through management accounts to audited financial accounts. The team reconciled total cost to make data to the cost of production in the management reports with particular attention given to including all relevant costs and excluding all irrelevant costs. The team then reconciles cost of production data, through relevant account ledgers, to the cost of goods sold figure reported in the audited income statement. Additionally, the team reconciled selling, general and administrative (SG&A) expenses to income statements, with particular attention given to specific expenses that the company excluded or that the team should exclude.

The team verified the completeness and relevance of the cost to make and sell (CTMS) information provided by Orica in the application by reconciling it to audited financial statements in accordance with ADN 2016/30.

Orica's cost of goods sold (COGS) for ammonium nitrate is not reported in Orica Limited's annual report. The team instead reconciled the APA group earnings before interest and tax (EBIT) in the annual report to Orica's trial balance.

The team verified the relevance and completeness of the cost data as follows:

1. Reconciled the APA group EBIT in the Orica Limited annual report to APA group EBIT in Orica Australia's accounting system.
2. Reconciled the APA group EBIT in Orica's accounting system to EBIT for Orica.
3. Reconciled the EBIT for Orica to trial balance.
4. Reconciled the EBIT in the trial balance to the COGS in the trial balance.
5. Reconciled the figures listed in the trial balance for COGS to cost of manufacture for the goods by reconciling the relevant cost centres by the cost component analysis report.

The team also conducted a verification of the cost of production for ammonium nitrate from Orica's Kooragang Island and Yarwun facilities. The team was able to reconcile the cost of production of ammonium nitrate provided by Orica in the application to the amounts in Orica's accounting system.

The team also verified the relevance and completeness of the selling, general and administrative (SG&A) data. The team verified the:

- SG&A expense categories included in the CTMS
- SG&A expense amounts by reconciling them to the accounting system.

The team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **confidential attachment 1**.

6.2 CTMS completeness and relevance finding

The team is satisfied that the CTMS data provided in the application by Orica is complete and relevant.

7 Verification of cost to make and sell accuracy

7.1 Cost allocation method

The team verified the reasonableness of the method used to allocate the cost information, in accordance with ADN 2016/30.

The team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **confidential attachment 1**.

Table 2 below outlines the allocation method applied to each cost item.

Cost item	Method applied
Raw Materials	Orica allocated the actual cost of the raw materials used in the production of ammonium nitrate.
Manufacturing Overheads	Orica allocated the actual cost of manufacturing overheads used in the production of ammonium nitrate.
Labour	Orica allocated the actual cost of labour used in the production of ammonium nitrate.
Depreciation	Orica allocated the cost of depreciation based on the production quantity of ammonium nitrate.

Table 2: Cost allocation method

7.2 Verification of accuracy of CTMS data

The team verified the accuracy of the CTMS information by reconciling it to source documents in accordance with ADN 2016/30.

The team did not identify any issues during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **confidential attachment 1**.

7.3 CTMS verification finding

The team is satisfied that the CTMS data provided in the application by Orica is complete, relevant and accurate.

Accordingly, the team considers Orica's CTMS data is suitable for analysing the economic performance of its ammonium nitrate operations from 1 April 2022 to 31 March 2023.

8 Economic condition

8.1 Background

Dumping and measures were first applied to ammonium nitrate exported to Australia from Thailand, Sweden and China in June 2019.

An assessment as to whether the expiration of measures would lead, or would be likely to lead, to a continuation or recurrence of the material injury that the anti-dumping measures is intended to prevent involves a consideration of future outcomes based on an evaluation of the present position. To assist with that assessment, this chapter considers the economic condition of the Australian industry from 1 April 2019.

8.2 Approach to injury analysis

The analysis detailed in this chapter is based on verified financial information submitted by Orica.

The team has assessed the economic condition of the Australian industry from 1 April 2019 using the information provided by Orica. The commission has compiled the figures presented on an annual basis for a four year period ending 31 March 2023 (the injury analysis period) . This preliminary assessment is at **Confidential Appendix 1**.

8.3 Volume effects

8.3.1 Sales volume

Figure 1 below shows Orica's sales volume in the four year period ending 31 March 2023. The chart indicates Orica achieved a modest increase for sales in the year ending March 2021 however these gains were offset by a decrease in sales over the following 24 month period.

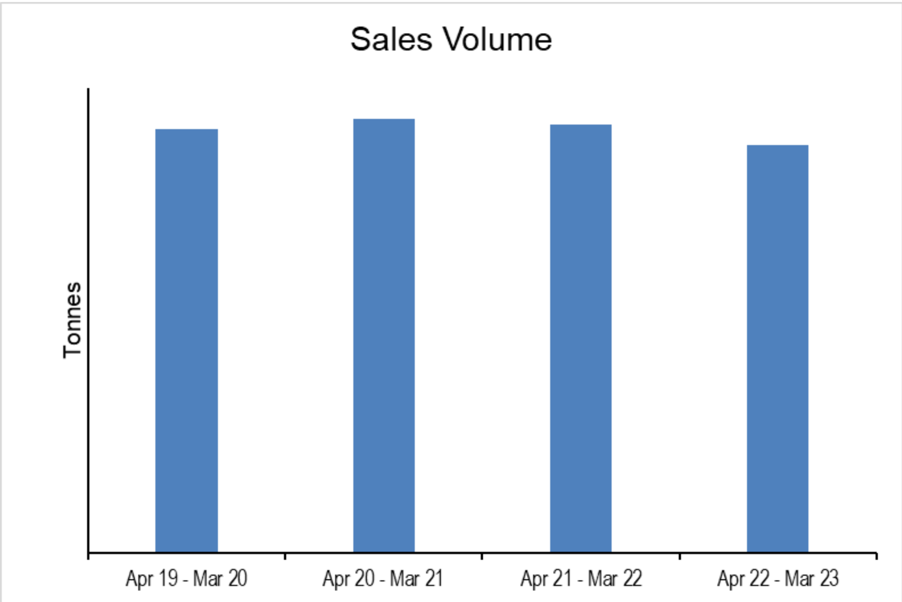

Figure 1 - Sales volume

8.4 Price effects

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

Figure 2 compares Orica's weighted average unit price and weighted average unit cost to make and sell (CTMS) over the four year period ending 31 March 2023. The chart shows that both unit CTMS and unit price increased throughout the period ending 31 March 2023.

In the years ending March 2021 and March 2022, the rate of increase in unit CTMS was greater than the rate of increase for selling price and is indicative of price suppression. However, in the year ending March 2023, prices increased at a faster rate than prior periods and appears to result in a reversal of the price suppression that was previously emerging.

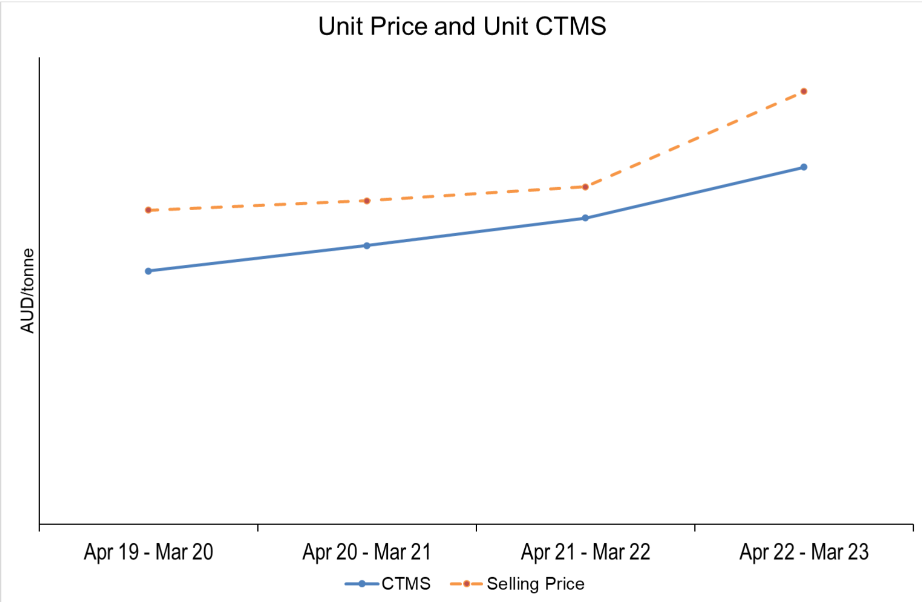

Figure 2 - Unit price and CTMS

8.5 Profit and profitability

Figure 3 below illustrate that while Orica was profitable over the injury analysis period, profits and profitability declined in the years ending March 2021 and 2022. Despite a decline in sales volumes in the year ended March 2023, profit and profitability both increased significantly over the period.

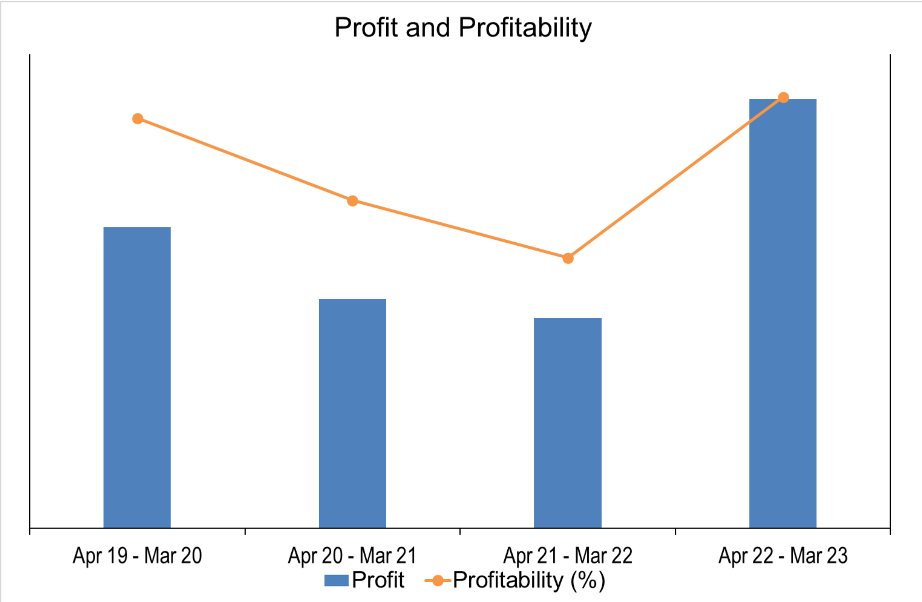

Figure 3 - Profit and profitability

8.6 Other economic factors

The team also examined Orica Australia's:

- Assets
- Revenue
- Capital investment
- ROI
- Employment and wages
- Productivity
- Capacity and capacity utilisation
- Inventories
- Cash flow

The team identified that revenue and employment generally increased through the injury assessment period. Capital investment ad ROI also increased late in the injury assessment period.

9 Impact of expiry of measures

9.1 Background and approach to analysis

Under the terms of section 269ZHF(2), in order to recommend that the Minister take steps to secure the continuation of the anti-dumping measures, the Commissioner must be satisfied that the expiration of measures would lead, or would be likely to lead, to a continuation or recurrence of:

- dumping and/or subsidisation
- the material injury

that the anti-dumping measure is intended to prevent.

Accordingly, the team sought Orica's views on these matters, and collected evidence to support those claims. This included a confidential presentation by Orica, which was retained by the verification team, information concerning Orica's contractual arrangements in the period since measures were imposed, and data concerning contracts that relate to the period around the time when the measures are due to expire.

The commission will consider this evidence further during the course of the inquiry.

9.2 Continuation or recurrence of dumping and material injury

The team discussed the impact of measures imposed following the Investigation 473, in which the commission determined that the exports from China, Sweden and Thailand at dumped prices has caused material injury to the Australian industry. Orica considers that the measures imposed were effective in removing the injury from goods being dumped from these sources; exports from these sources largely ceased following the imposition of the measures.

However, Orica also considers that if the measures were to expire, then exporters in China, Sweden and Thailand will be able to export large bulk shipments into the Australian market in 2024 as they did in 2019. These exporters continue to be active on global export markets at prices that are likely to be injurious to the Australian industry manufacturing like goods. According to Orica, considerable volumes of ammonium nitrate produced by Australian domestic producers are supplied on three to five-year contracts. Orica therefore claims that it risks loss of volume and/or price injury in the renegotiation of upcoming contracts in the event that measures are removed.

10 Appendices and attachments

Confidential Attachment 1	Verification work program
Confidential Appendix 1	Economic Condition of the Australian Industry - Orica