PUBLIC RECORD

Australian Government
Department of Industry, Science and Resources

Anti-Dumping Commission

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	CSBP Ltd		
Location	Kwinana Beach Road, Kwinana Beach WA		
Verification from	11/09/2023	to	14/09/2023
Inquiry period	1/04/2022	to	31/03/2023

The Anti-Dumping Commission will review this report, including its views and recommendations.

This report may not reflect the Anti-Dumping Commission's final position.

Contents

Introduction

CSBP Ltd (CSBP) provided data to the Anti-Dumping Commission (the commission) in relation to Continuation Inquiry 629 (case 629) into ammonium nitrate exported to Australia from China, Sweden and Thailand.

A verification team has verified whether the data CSBP Limited (CSBP) submitted is complete, relevant and accurate for use in case 629. Anti-Dumping Notice (ADN) No 2016/30 describes the commission's verification procedure.

This report explains the verification team's key findings, including the evidence considered and material issues identified. Where CSBP or the verification 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

CSBP was established in 1910 and is a manufacturer and supplier of chemicals, fertilisers, and related services in Australia. CSBP provides products and services to various industries, including mining, agriculture, industrial and construction.[2] CSBP is a wholly owned subsidiary of the publicly listed Wesfarmers Limited (Wesfarmers) and is part of the Wesfarmers Chemicals, Energy & Fertilisers division (WesCEF).

CSBP has a 50% interest in the Queensland Nitrate Ltd (QNP) joint venture with Dyno Nobel Asia Pacific Pty Ltd (Dyno Nobel).

CSBP claimed that it does not have any relationship (commercial or otherwise) with an exporter from the subject countries to Australia or an Australian importer of the goods.

1.2 Related parties

The verification team examined the relationships between CSBP and parties involved in the production and sale of the goods.

1.2.1 Related suppliers

The verification team identified CSBP sourced certain manufacturing inputs from related party suppliers. The verification team assessed the price of these inputs and was satisfied that the transactions involving goods and services sourced from related parties were at arms length.

1.2.1 Related customers

CSBP advised that there were no related customers. The verification team did not find any information that would indicate that CSBP sold like goods to related customers.

[2] https://wescef.com.au/who-we-are/wescef-businesses/, https://csbp.com.au/company/businesses/.

2 Like goods manufactured in Australia

2.1 Manufacturing in Australia

The Australian industry producing ammonium nitrate is comprised of CSBP, Orica Australia Pty Ltd, QNP, Dyno Nobel and Yara Pilbara Nitrates Pty Ltd.

CSBP predominately supplies the western seaboard market of Australia.

2.2 CSBP's manufacturing capability

CSBP manufactures ammonium nitrate at its production facility in Kwinana, Western Australia. The Kwinana manufacturing site is comprised of the following production plants:

- an ammonia plant with nameplate production capacity of 225,000 tonnes per annum used internally as a raw material in the production of ammonium nitrate and fertilisers and sodium cyanide
- three nitric acid plants
- three ammonium nitrate solution plants with total nameplate production capacity of 695,000 tonnes of ammonium nitrate solution per annum
- one ammonium nitrate prilling tower with nameplate production capacity of 350,000 tonnes of prilled ammonium nitrate per annum
- two sodium cyanide plants,
- one emulsion plant, and
- fertiliser plants that produce fertilisers, including urea ammonium nitrate and other nitrogen-based fertilisers.

CSBP uses its own produced ammonia combined with imported ammonia to produce nitric acid in one of its three nitric acid plants. This nitric acid is further processed with ammonia into ammonium nitrate solution (ANsol), which is then either:

- dispatched to explosive manufacturers and service providers
- converted to emulsion-based explosives by mixing ANsol with diesel and other additives
- processed further at the prill tower facility to produce prilled low density ammonium nitrate (LDAN), or
- transferred to fertiliser business and converted to other products (e.g. urea ammonium nitrate).

CSBP manufactures and supplies ammonium nitrate in three forms:

- Prilled LDAN, which is the basis for most of the bulk blasting agents used by the mining industry including ammonium nitrate fuel oil (ANFO) and heavy ANFO products.
- ANsol, which is used to produce ammonium nitrate-based emulsion products, as well as liquid fertilisers.
- Ammonium nitrate emulsion, which can be used in wet conditions when ANFO is not viable, or where higher energy densities are desired.

The verification team is satisfied that at least one substantial process in the manufacture of ammonium nitrate is carried out in Australia by CSBP at its Kwinana site.

2.2.1 Ammonium nitrate production process

Ammonium nitrate is produced by neutralising nitric acid with ammonia. Ammonia is produced from natural gas, which typically accounts for most of the production cost of ammonium nitrate. Natural gas is reacted with steam and air to produce hydrogen, nitrogen

and carbon dioxide. The carbon dioxide is removed, and the hydrogen is reacted with nitrogen to produce ammonia.

Nitric acid is produced through the reaction of ammonia with oxygen in the presence of a catalyst. The reaction produces nitric oxides, which are dissolved in water to produce nitric acid. The reaction of ammonia with nitric acid produces an ammonium nitrate solution. This may be sold in the solution state or solidified by prilling or granulation.

To manufacture prills, the solution is sprayed into the top of a prilling tower, a rising air stream cools and solidifies the falling droplets into spherical balls or prills.

The density of the finished product is governed by the concentration of the solution. Prilled LDAN is produced using a solution with a higher moisture content. The solidified prills also have a high moisture content and go through a lengthy drying process.

Ammonium nitrate is considered a substantially transformed good, manufactured via a value-add process that involves locally sourced raw materials, in particular natural gas.

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 verification, the verification team considers that goods manufactured by CSBP are identical to, or have characteristics closely resembling, the goods exported to Australia.

The comparison of the goods manufactured by CSBP and the goods exported to Australia is outlined below.

Physical likeness

The verification team understands that ammonium nitrate is broadly classified into 2 grades – low density and high density. In particular, the verification team understands that:

- LDAN is generally of solid prilled form and is typically used in the manufacture of explosives. LDAN is predominantly used in the production of bulk explosives, including ANFO and emulsion-based bulk explosives. The applicants claimed that locally produced LDAN was substitutable with imported LDAN.
- High density ammonium nitrate (HDAN) is generally in granular form (it also can be in prill form) and is typically used as a fertiliser overseas. HDAN can be used in the manufacture of emulsion.
- HDAN and ANsol produced by the Australian industry are directly substitutable with imported HDAN after being melted. HDAN and ammonium nitrate solution are sold to the same customers for the purposes of producing ammonium nitrate emulsion. CSBP does not produce HDAN, but does produce ANsol which is used in the same application as HDAN after melting. Further, CSBP produces ammonium nitrate emulsion.
- In certain circumstances, high and low density ammonium nitrate can be substituted for each other.

Commercial likeness

In the application, the applicants claimed that the imported goods compete directly with the locally produced goods and are interchangeable in end-use applications. Consistent with the previous verification, this has not changed.

Functional likeness

As mentioned above, ammonium nitrate is broadly classified into two grades: LDAN and HDAN. The verification team understands that LDAN is generally of a solid prilled form and is typically used in the manufacture of explosives, including emulsion-based explosives. HDAN, which can be in a granular or prilled form, is generally used overseas in the agriculture sector as a fertiliser. HDAN cannot be used in place of LDAN for dry blasting. However, in Australia, HDAN is largely used in the production of bulk emulsion, which is used in bulk explosives.

CSBP advised that HDAN, given it was melted and converted to an emulsion-based explosive, was suitable for wet blasting (e.g., blasting below the water table). LDAN was typically used for dry blasting but could not be used for wet blasting as prill would absorb water.

Consistent with previous cases involving ammonium nitrate, the verification team considers that the ammonium nitrate produced by CSBP is like to the goods exported to Australia. This also aligns with the previous verification findings.

Production likeness

The verification team considers that CSBP produces like goods using a substantially similar production process (a similar chemical reaction process) and using similar raw material inputs to the imported goods.

2.3.1 Preliminary like goods assessment

The verification team considers that, while the locally produced goods are not necessarily identical to the goods under consideration, the locally produced goods closely resemble the goods the subject of the application and are like goods given that:

- the primary physical characteristics of imported and locally produced goods are almost identical
- the imported and locally produced goods are commercially alike as they are sold to the same or similar end-users and compete in the same market
- the imported and locally produced goods are functionally alike as they have the same end-uses, and
- the imported and locally produced goods are manufactured in a similar manner.

2.4 Conclusion

The verification team is satisfied that:

- ammonium nitrate produced by CSBP is like to the goods under consideration in this inquiry[3]
- at least one substantial process in the manufacture of ammonium nitrate is carried out by CSBP in Australia[4]
- the like goods were, therefore, wholly or partly manufactured in Australia by CSBP[5]

[3] Section 269T(1) (definition of 'like goods').

[4] Section 269T(3).

[5] Section 269T(2).

3 Australian market

In Australia, ammonium nitrate 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 necessary security protocols that are required for its transport and storage relative to other nitrogenous fertilisers (such as urea and urea ammonium nitrate solution).[6]

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

3.1 Australian market structure

CSBP claim that the Australian market for ammonium nitrate is split across the eastern and western seaboards.

The eastern seaboard ammonium nitrate plants are in NSW and Queensland. These plants primarily supply ammonium nitrate for use in eastern seaboard coal and metal mines. The western seaboard market is primarily focused on supplying ammonium nitrate for use in iron ore, gold and other mines. CSBP claims that there is a market for ammonium nitrate in South Australia, but this represents only a small part of the overall industry.

3.1.1 Marketing segmentation, distribution and end uses

CSBP focuses on the explosives segment of the market, but also transfers ammonium nitrate to its fertiliser business. Ammonium nitrate transferred to the fertiliser business is further processed into non-GUC products such as urea ammonium nitrate. Medical gases produced from ammonium nitrate (e.g. nitrous oxide) are not a feature of the Western Australia market. However, CSBP does produce CO_2 gas as a by-product which it sells. Ammonia, an intermediate product, is supplied to customers and is also consumed by CSBP to manufacture other products, such as sodium cyanide.

CSBP provided an explanation on the differences between the east and west coast markets, noting that there were minimal movements of ammonium nitrate between the markets due to significant freight costs.

3.1.2 Sales arrangements and pricing

Consistent with previous verifications, CSBP advised that its ammonium nitrate sales were predominantly contract based, with limited spot sales occurring.

CSBP advised that prices in its long-term contracts are established at the time of negotiating the contract and the base price fixed for the duration of the contract. CSBP advised that customers usually reference the ‘next best alternative’ when negotiating prices. The alternative is either imported ammonium nitrate or ammonium nitrate produced by other Australian industry suppliers.

[6] Ammonium nitrate is classified under the Australian Dangerous Goods Code as a category 5.1 dangerous good. Licences issued by relevant state authorities are required to 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.

4 Verification of sales completeness and relevance

The commission typically verifies sales as complete and relevant by reconciling the revenue and quantity in sales listings up to management accounts and then audited financial accounts. ADN No 2016/30 further describes this verification process.

The verification team verified whether the sales listings CSBP submitted are complete and relevant by reconciling them to the audited financial statements, consistent with ADN No 2016/30.

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

1. Reconciling WesCEF's revenue to audited Wesfarmers' financial statements published in its annual report.
2. Reconciling CSBP's total revenue (from income statement) to WesCEF's revenue.
3. Reconciling CSBP's revenue and quantity for ammonium nitrate to its total revenue and quantity (from income statement) for the inquiry period.
4. Reconciling total revenue and quantity for ammonium nitrate to monthly management reports and income statement for ammonium nitrate and reconciling the sales revenue and quantity from these reports to the A4 sales listing and the sales quantity and revenue as recorded in CSBP's CTMS worksheets.

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

Exception 1: Relevance of CSBP's sales data

Description: The verification team identified that CSBP's sales listing relevant to the inquiry period, presented as Appendix A4, included transactions for sales of non-like goods and sales dated prior to the inquiry period.

The verification team also identified that in worksheet 'A6.1 CTMS domestic ANsol', CSBP included the volume and revenue relating to its internal transfers of ANsol to its fertiliser business, and also included the volume and revenue relating to sales of nitric acid which is not a like good.

Resolution: The verification team raised the issue with CSBP. CSBP provided an updated Appendix A4 sales listing to exclude sales of non-like goods and sales transactions date before the inquiry period.

The verification team also amended worksheet 'A6.1 CTMS domestic ANsol' to exclude the volume and revenue relating to internal transfers of ANsol (which is used as an intermediate good to produce fertiliser), noting that these transfers do not relate to external sales of finished goods. The verification team did not exclude the volume and revenue relating to sales of nitric acid because these sales were immaterial.

4.1 Import sales by company

CSBP did not import ammonium nitrate during the inquiry period.

4.2 Export sales by company

CSBP did not make any export sales during the inquiry period.

4.3 Sales completeness and relevance finding

The verification team is satisfied that CSBP's revised sales data 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 No 2016/30 further describes this verification process.

The verification team verified whether the sales data CSBP submitted is accurate by reconciling it to source documents, consistent with ADN No 2016/30.

The verification team identified the issues outlined below during this process. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

Exception 2: Accuracy of CSBP's sales

Description: The initial version of CSBP's sales listing relevant to the inquiry period, presented as Appendix A4, omitted details concerning delivery and payment terms . It subsequently provided a revised sales listing however this revised sales listing included incorrect delivery terms for certain transactions and incorrectly reported transport and handling costs for sales made at ex-works.

The verification team also identified errors in the quarterly sales revenue recorded in CSBP's A6.1 CTMS worksheets for prill, emulsion and ANsol. Because these worksheets also feed into the revenue recorded in worksheet 'A6.1 CTMS domestic AN combined', the errors were carried through into this worksheet also.

Resolution: CSBP provided an updated Appendix A4 sales listing to exclude transport and handling costs for sales made at ex-works and report the correct delivery terms.

The verification team amended the sales revenue row in each CTMS worksheet to reflect the correct revenue for that particular quarter.

5.1 Related party customers

The verification team did not find any information that would indicate that CSBP has any related customers, noting that customers that were 'sighted' on site made up of over 80% of CSBP's sales volumes and were not related. This is consistent with findings in previous verifications of CSBP's data conducted by the commission.

5.2 Sales accuracy finding

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

6 Verification of CTMS completeness and relevance

The commission typically verifies cost to make and sell (CTMS) as complete and relevant by reconciling the total cost to make (CTM) and selling, general and administrative (SG&A) expenses in cost listings up to management accounts and then audited financial accounts. ADN No 2016/30 further describes this verification process.

The verification team verified whether the CTM and SG&A listings CSBP submitted are complete and relevant by reconciling it to audited financial statements, consistent with ADN No 2016/30.

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

1. The verification team reconciled the cost to manufacture like goods for the period 1 April 2022 to 31 March 2023 to CSBP's cost of goods sold (COGS), after adjusting for inventory movements/changes and other adjustments.
2. Given that COGS is not separately reported at the WesCEF division level and is not separately reported by Wesfarmers in its annual report, CSBP demonstrated the reconciliation of its COGS to audited financial statements through its EBIT (revenue less COGS and selling, administrative and despatch expenses). CSBP's EBIT for ammonium nitrate was then reconciled to its total EBIT, which was reconciled to the EBT of the WesCEF division and ultimately to the EBT as recorded in the audited financial statements for Wesfarmers.

The verification team verified the relevance and completeness of the SG&A data as follows:

1. The verification team reconciled CSBP's SG&A expenses for the period 1 April 2022 to 31 March 2023 to the SG&A expenses as recorded in CSBP's management reports and income statement.
2. Given that SG&A expenses are not separately reported at the WesCEF division level and is not separately reported by Wesfarmers in its annual report, CSBP demonstrated the reconciliation of its SG&A expenses to audited financial statements through its EBIT (revenue less COGS and selling, administrative and despatch expenses). CSBP's EBIT for ammonium nitrate was then reconciled to its total EBIT, which was reconciled to the EBT of the WesCEF division and ultimately to the EBT as recorded in the audited financial statements for Wesfarmers.

The verification 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**.

6.1 CTMS completeness and relevance finding

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

7 Verification of cost to make and sell accuracy

The commission typically verifies CTMS as accurate by reconciling a selection of volume, cost and other key data in the CTM and SG&A listings down to source documents. ADN No 2016/30 further describes this verification process.

The verification team verified whether the CTM and SG&A listings CSBP submitted are accurate by reconciling them to source documents, consistent with ADN No 2016/30.

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

7.1 Cost allocation method

Table 1 outlines how the verification team allocated each cost component.

Cost component	Method applied
Raw materials	Raw material costs were allocated based on production quantity for the finished goods. The verification team verified the allocation of the two primary raw materials used in the manufacture of ammonium nitrate to source documents for a sample period. Production quantity was verified to the accounting records of CSBP.
Direct labour	Labour costs were allocated based on production quantity for the finished goods. The verification team verified the allocation of selected labour costs to the accounting records for a sample period. Production quantity was verified to the accounting records of CSBP.
Manufacturing overheads	Manufacturing overhead costs were allocated based on production quantity for the finished goods. The verification team verified the allocation of selected overhead costs to source records for a sample period. Production quantity was verified to the accounting records of CSBP.
Depreciation	Depreciation costs were allocated based on production quantity for the finished goods. The verification team verified the allocation of selected depreciation costs to the accounting records for a sample period. Production quantity was verified to the accounting records of CSBP.

Table 1: Cost allocation method

7.2 Related party suppliers

The verification team identified CSBP sourced certain manufacturing inputs from related party suppliers.

The verification team's assessment of related party input costs involved examination of documents relevant to the various cost records.

Having regard to the above, the verification team is satisfied that CSBP's purchases from related parties were made at arms length.

7.3 Cost to make and sell accuracy finding

The verification team is satisfied that the CTMS data CSBP submitted is accurate and reasonably reflects the costs associated with the production and sale of the goods.

8 Economic condition

8.1 Background

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 measure 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 from1 April 2019.

8.2 Approach to injury analysis

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

The verification team has assessed the economic condition from 1 April 2019 using the information provided by CSBP. The commission has compiled the figures presented on an annual basis for the for year ending 31 March 2023 (the injury analysis period) This preliminary assessment is at **Confidential Attachment 2**.

8.3 Volume effects

Beyond the statement below, CSBP have claimed confidentiality over the inclusion of charts, indices or any further detailed commentary in relation to CSBP's ammonium nitrate volume effects for the period between 1 April 2019 to 31 March 2023.

The verification team observed CSBP's annual sales volumes over the period 1 April 2019 to 31 March 2023 remained relatively unchanged.

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.

Beyond the statement below, CSBP have claimed confidentiality over the inclusion of charts, indices or any further detailed commentary in relation to CSBP's ammonium nitrate price effects for the period between 1 April 2019 to 31 March 2023.

The verification team has observed that overall, between April 2020 and March 2023, CSBP's unit selling price and unit CTMS have generally increased. The rate of price increase in the period 1 April 2022 to 31 March 2023 was greater than the rate of cost increase.

8.5 Profit and profitability

Beyond the statement below, CSBP have claimed confidentiality over the inclusion of charts, indices or any further detailed commentary in relation to CSBP's ammonium nitrate price effects for the period between 1 April 2019 to 31 March 2023.

CSBP's sales of like goods has overall been profitable. Profit was found to have increased in the period 1 April 2022 to 31 March 2023.

8.6 Other economic factors

The verification team also examined CSBP's:

- assets
- capital investment
- revenue
- return on investment
- capacity and capacity utilisation
- employment and wages
- productivity
- capacity and capacity utilisation
- inventories, and
- cash flow measures.

The assessment of these factors is contained in **Confidential Attachment 1**.

9 Impact of expiry of measures

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 the material injury that the anti-dumping measure is intended to prevent.

Accordingly, the verification team sought CSBP's views on the likely effects from the expiration of the measures and requested supporting evidence.

CSBP claimed that the lack of imports from China, Sweden and Thailand probably shows that the measures are effective. CSBP indicated that exports from the subject countries could potentially put pressure on its prices if the measures expire.

Based on CSBP's forward projections, CSBP indicated that if it does not successfully renegotiate its current supply contracts, then a significant proportion of its production capacity will be uncontracted and therefore likely underutilised if it does not secure alternative contracts or other uncontracted sales.

CSBP was of the view that the scenario outlined above will likely put downward pressure on its prices and profit as it seeks to maintain sales in order to maintain the rate of utilisation of its production capacity. CSBP did not provide any specific examples of ongoing contract negotiations nor did it identify the specific contracts that are due to expire.

10 Attachments

Confidential Attachment 1	Verification work program
Confidential Attachment 2	Economic condition of the Australian Industry – CSBP Ltd