



Australian Government
**Department of Industry,
Innovation and Science**

**Anti-Dumping
Commission**

INVESTIGATION 473

**ALLEGED DUMPING OF AMMONIUM NITRATE
EXPORTED FROM THE PEOPLE'S REPUBLIC OF CHINA,
SWEDEN AND THE KINGDOM OF THAILAND**

VERIFICATION VISIT REPORT - AUSTRALIAN INDUSTRY

ORICA AUSTRALIA PTY LTD

**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 THE ANTI-DUMPING COMMISSION**

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1 BACKGROUND

On 25 June 2018, the Commissioner of the Anti-Dumping Commission initiated an investigation into the alleged dumping of ammonium nitrate exported to Australia from the People's Republic of China (China), Sweden and the Kingdom of Thailand (Thailand).

The investigation was initiated following an application lodged by CSBP Limited (CSBP), Orica Australia Pty Ltd (Orica) and Queensland Nitrates Pty Ltd (QNP) (collectively, the applicants) seeking the publication of a dumping duty notice in respect of ammonium nitrate exported to Australia from China, Sweden and Thailand.

Public notification of the initiation of the investigation was published on the Anti-Dumping Commission's (Commission's) website. The reasons for initiating this investigation are outlined in Anti-Dumping Commission Consideration Report No. 473 and Anti-Dumping Notice (ADN) No. 2018/103.¹

¹ Refer [item no. 003](#) on the electronic public record (EPR) 473.

2 THE GOODS

2.1 The goods

The goods the subject of the application ("the goods", or the goods under consideration) are:

Ammonium nitrate, prilled, granular or in other solid form, with or without additives or coatings, in packages exceeding 10kg.

2.1.1 Further information

There are two types of ammonium nitrate which are imported into Australia from the countries the subject of the application - low density ammonium nitrate (LDAN) and high density ammonium nitrate (HDAN).

Both LDAN and HDAN imported into Australia from the countries the subject of the application are in solid prilled form.

2.1.2 Tariff classification

Ammonium nitrate, whether or not in aqueous solution, is classified within tariff subheading 3102.30.00, statistical code 05, in Schedule 3 to the *Customs Tariff Act 1995*.

There is currently no customs duty applying to ammonium nitrate imported into Australia from any country, however, dumping duties (in the form of a floor price) currently apply to goods imported from the Russian Federation (Russia) and Estonia.

3 THE AUSTRALIAN INDUSTRY

3.1 Manufacturing in Australia

The Australian industry producing ammonium nitrate is comprised of Orica, CSBP, QNP, Dyno Nobel Asia Pacific Pty Ltd and Yara Pilbara Nitrates Pty Ltd (Yara Pilbara Nitrates).²

Orica is the second largest producer (in terms of volume produced) of ammonium nitrate in Australia.³

3.1.1 Orica's manufacturing capability

Orica produces ammonium nitrate at two separate manufacturing sites - Kooragang Island in New South Wales (NSW), and Yarwun in Queensland.

The Kooragang Island manufacturing site is comprised of the following production plants:

- 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 nameplate production capacity of 340,000 tonnes per annum; and
- two ammonium nitrate plants with nameplate production capacity of 430,000 tonnes per annum.

The Yarwun manufacturing site is the larger of the two ammonium nitrate manufacturing sites (by production capacity) and is comprised of the following production plants:

- three nitric acid plants with total nameplate production capacity of 418,000 tonnes per annum;
- ammonium nitrate plants (two solution and two prill plants) with nameplate production capacity of 530,000 tonnes per annum;
- an ammonium nitrate emulsion plant; and
- a sodium cyanide plant.

² Yara Pilbara Nitrates is a joint venture between Orica Investments Pty Ltd and Yara Australia Pty Ltd, subsidiaries of Orica Limited and Yara International ASA respectively. It has made discrete production runs of ammonium nitrate in the Pilbara region in WA during the investigation period, albeit production has been affected by technical issues.

³ During the investigation period (1 April 2017 to 31 March 2018).

Orica also has four (other than the one located at Yarwun) ammonium nitrate emulsion plants – two in WA, and two in NSW.

At the verification visit, Orica explained its production process for ammonium nitrate.

The verification team is satisfied that at least one substantial process in the manufacture of ammonium nitrate (the production of ammonia and nitric acid) is carried out in Australia.

3.2 Like goods

‘Like goods’, in relation to the goods under consideration, are defined under section 269T(1) of the Customs Act 1901 (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.

In the application,⁴ the applicants claimed that the imported goods possess similar characteristics to the locally produced goods.

The verification team found that Orica manufactures the following goods in Australia:

- Ammonium nitrate solution (ANSol) – ammonium nitrate in aqueous solution (water) with varying levels of ammonium nitrate concentrate;
- LDAN – porous prilled ammonium nitrate, also referred to as Nitropril and ANOPRILL; and
- HDAN – also referred to as Marbyl.

The following summarises the verification team’s assessment of whether the locally produced goods are identical to, or closely resemble, the goods the subject of the application and are therefore like goods.

3.2.1 Physical likeness

In the application, the applicants claimed that the goods exported to Australia from China, Sweden and Thailand are physically similar and have similar characteristics to the ammonium nitrate produced by the Australian industry.

In the application, Orica had provided product specification sheets relevant to its locally produced ammonium nitrate (for ANSol, Nitropril and Marbyl). These specification sheets include a physical description of the product and identify the product characteristics including the bulk density, fuel oil absorption (%) and moisture content (among other characteristics).

The verification team compared Orica’s product specifications with the product specifications of the imported goods (as identified in product specification sheets provided by the applicants in the application). Based on this comparison, the verification team considers that while there are slight differences in the technical specifications (such as

⁴ Refer [item no. 001](#) on EPR 473.

the ammonium nitrate content, density etc.) between the ammonium nitrate exported from China, Sweden and Thailand and the ammonium nitrate produced by Orica, the goods produced by Orica have physical characteristics that closely resemble the imported goods.

Orica's product specification sheets are at **Confidential Attachment 2**.

3.2.2 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.

The verification team reviewed Orica's sales data and observes that Orica sold ammonium nitrate to customers that also imported the goods. Based on this, the verification team is satisfied that Orica produces like goods that are sold to the same customers and therefore these goods compete directly with the imported goods.

3.2.3 Functional likeness

In the application, the applicants claimed that the imported goods and the locally produced goods perform the same function and are used in the same end-use applications.

The applicants claimed that there are two types of ammonium nitrate which are imported into Australia - LDAN and HDAN.

The applicants claimed that LDAN is often referred to as porous prilled ammonium nitrate (or technical grade or explosives grade ammonium nitrate), and is predominantly consumed by the mining, quarrying and construction industries. The applicants explained that LDAN is often used in the production of bulk explosives, including ANFO (porous prilled ammonium nitrate mixed with fuel oil), heavy ANFO (mixture of porous prilled ammonium nitrate, ammonium nitrate emulsion and fuel oil) and emulsion based explosives (mixture of porous prilled ammonium nitrate and ammonium nitrate emulsion). The applicants claimed that locally produced LDAN is substitutable with imported LDAN from the countries the subject of the application.

The applicants claimed that HDAN, which can be in a granular or prilled form, is generally used in the agriculture sector as a fertiliser; however, in Australia, HDAN is mainly used in the production of emulsion based-explosives. The applicants claimed that locally produced ammonium nitrate solution is directly substitutable with imported HDAN from the countries the subject of the application.

The verification team reviewed Orica's sales data for the investigation period and observed that Orica had sold either LDAN, HDAN and/or ammonium nitrate solution to certain bulk explosives producers and blasting service providers, including bulk explosives producers that have imported both LDAN and HDAN.

Based on this, the verification team considers that Orica produces goods that are functionally alike, in terms of having the same end-use application, to the imported goods.

3.2.4 Production likeness

In the application, the applicants claimed that the imported and locally produced goods are manufactured using similar production processes.

At the verification visit, Orica explained its production process for ammonium nitrate including the chemical reaction process.⁵ The verification team considers that Orica produces like goods using a substantially similar production process (i.e. a similar chemical reaction process) and using similar raw material inputs to the imported goods.

3.2.5 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 customers 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.

3.3 Conclusion

The verification team is satisfied that:

- ammonium nitrate manufactured by Orica are like goods to the goods under consideration;⁶
- at least one substantial process in the manufacture of ammonium nitrate is carried out by Orica in Australia, and therefore, like goods were wholly or partly manufactured in Australia;⁷ and
- there is an Australian industry in respect of those like goods, consisting of Orica.⁸

⁵ Ammonium nitrate (NH_4NO_3) is produced by reacting ammonia (NH_3) with nitric acid (HNO_3).

⁶ In accordance with section 269T(1).

⁷ In accordance with section 269T(2) and 269T(3).

⁸ In accordance with section 269T(4).

4 AUSTRALIAN MARKET

4.1 Background

The Australian market for ammonium nitrate is supplied by domestic production and imports from a number of countries.

In Australia, ammonium nitrate is primarily used as a raw material in the production of explosives consumed by the mining and quarrying industries. Orica advised that ammonium nitrate is classified as a dangerous good and has some small usage in Australia as a fertiliser, mainly due to the handling and security protocols⁹ required for its transport and storage relative to other nitrogenous products such as urea and urea ammonium nitrate solution.

Ammonium nitrate production facilities are located strategically close to the major mines in NSW, Queensland and WA. In NSW, bulk explosives are used mainly in the coal mines of the Hunter Valley. The main areas of demand for ammonium nitrate in Queensland are in the Bowen Basin and in the central Queensland/Mt Isa region. In WA, the major areas of demand for ammonium nitrate are the Kalgoorlie goldfields and in the Pilbara region.

In the Australian market, ammonium nitrate is predominantly sold and purchased in accordance with fixed-term contracts. These contracts, arranged following a tender process, are effective for several years and will normally specify a base price and provisions to adjust this base price periodically to take into account variations in raw material costs or prices (such as natural gas and ammonia) and other cost variables.

4.2 Market structure

4.2.1 Market segmentation and end use

Orica advised that, in Australia, ammonium nitrate is predominantly used by the mining and quarrying industries as a raw material in explosives.

Orica stated that it views itself primarily as a commercial explosives, blast initiating systems and associated services provider to the mining, quarrying and construction industries; however, Orica indicated that it also sells ammonium nitrate to its direct competitors in the downstream market.

At the visit, Orica presented a diagram to illustrate the ammonium nitrate supply channels in Australia. The verification team reproduced this diagram for the purpose of this report (refer figure 1).

⁹ 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. In addition, there are restrictions on the amount of ammonium nitrate that can be received at a designated port at any one time.

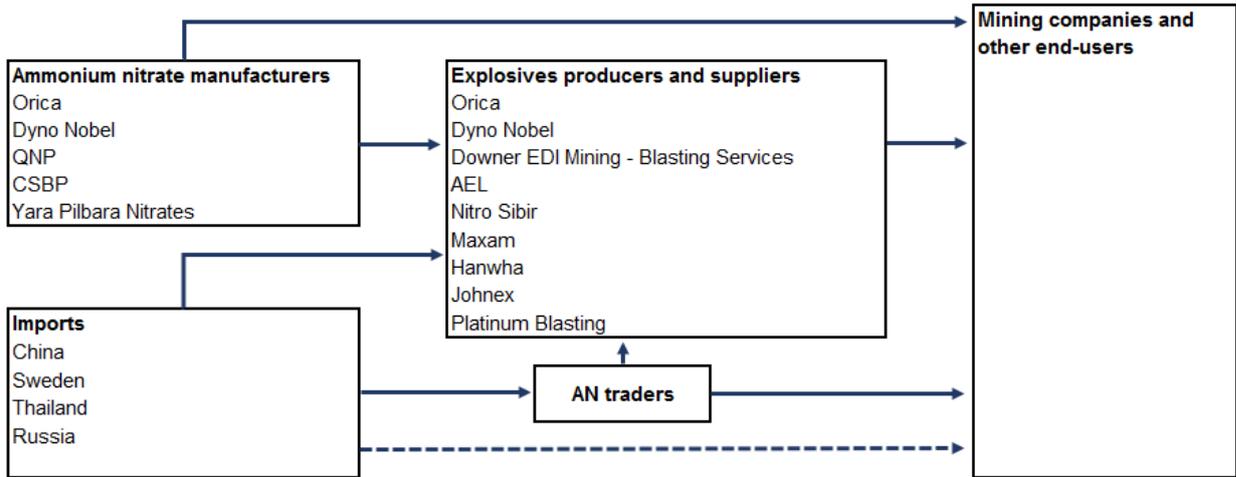


Figure 1: Ammonium nitrate supply channel to the mining sector

Orica indicated that ammonium nitrate is either sold to explosives and associated services providers or is sold directly to mining companies which consumed ammonium nitrate at mine sites.

Orica claimed that ammonium nitrate is imported either directly by explosives producers or is imported via traders. Orica indicated that it is unusual for mining companies to directly import ammonium nitrate.

Orica indicated that it imports ammonium nitrate to supplement its stock and ensure continuity of supply during manufacturing plant shutdowns. This is further discussed in section 8.4.4 of this report.

4.2.2 Sales and distribution

As stated in section 4.2.1 of this report, Orica views itself primarily as a commercial explosives and associated services provider to the mining, quarrying and construction industries. Orica explained that most of its income is derived from ‘down-the-hole’ (DTH) services, which includes the provision of bulk explosives (ANFO, heavy ANFO and emulsion based explosives) and loading the explosives at the customer’s mine site.

The verification team observes that Orica had recorded sales data in Appendix A3 (turnover) and Appendix A4 (Australian sales) separately for ammonium nitrate (at ex-works), bulk explosives and packaged explosives. The verification team found that, during the investigation period, approximately X per cent of Orica’s total sales volume¹⁰ encompassed direct (wholesale) sales of ammonium nitrate.

The verification team found that the majority of Orica’s sales (ammonium nitrate, bulk explosives and associated services) made during the investigation period were in accordance with fixed-term supply agreements, with the remaining sales made on a ‘spot’ basis. The majority of these ‘spot’ sales were of downgraded ammonium nitrate. Orica

¹⁰ 100 per cent equivalent ammonium nitrate volumes (%wt/wt).

describes this as “waste stream”. Excluding these ‘sales’ of downgrade product, spot sales comprise less than 1 per cent of Orica’s total sales volume (refer **Confidential Attachment 3**).

The verification team notes that in most large ‘bundled’ contracts (i.e. encompassing both the provision of consumables, such as ammonium nitrate, and associated services), reference is made to an ex-works price (referred to as a ‘base price’) for porous prilled ammonium nitrate. The contracts also specify provisions (referred to as ‘rise and fall’ provisions) to adjust these base prices on a periodic basis, including the formulas and variables used to adjust the base price. These price adjustment mechanisms in sales contracts are the primary method by which Orica seeks to pass through cost movements in feedstock (such as ammonia and natural gas prices) to preserve margin.

Orica advised that ‘take or pay’ provisions (minimum and maximum purchase volumes stipulated in supply agreements) do exist in some of its larger contracts; however, Orica noted that these provisions are being eroded away in new contracts negotiated.

Orica advised that it supplies its customers in the eastern states with ammonium nitrate manufactured at either Yarwun or Kooragang Island. In WA, it supplies its customers with ammonium nitrate sourced from third parties, including imports. Orica further advised that the joint venture between its related entity and Yara International ASA is targeted to supply customers in the Pilbara region in WA.

4.2.3 Demand for ammonium nitrate

Orica explained that demand for ammonium nitrate (and its derivatives including bulk explosives) in NSW and Queensland is primarily driven by demand from entities that mine thermal and metallurgical coal. In WA, demand for ammonium nitrate is primarily driven by demand from mining companies that extract ores and commodities such as iron ore and various metals from the earth. Therefore, the demand for ammonium nitrate in Australia is a derived demand, and there are no commercially significant substitutes for ammonium nitrate in Australia.

Orica advised that coal mining activity in the eastern states of Australia had slowed since 2014 due to falling commodity prices and that this has led to an oversupply of ammonium nitrate in the eastern states of Australia, particularly Queensland, which led Orica to de-commission (or “mothball”) more than half of its production capacity at its Yarwun plant in 2015. Orica however noted that demand has increased in 2017 and this has led to its decision to re-commission some production capacity at Yarwun.

4.2.4 Competition

As noted in sections 4.2.1 and 4.2.2, Orica considers itself primarily as an explosives and associated blasting services provider and not an ammonium nitrate wholesaler. Therefore, its main competitors include other explosives and associated services providers. These competitors source ammonium nitrate as a raw material either from domestic manufacturers or imports from various countries, including China, Sweden and Thailand.

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Orica explained that customers do prefer suppliers that are located geographically close to mitigate freight costs and security and quality issues (ammonium nitrate degrades in quality the longer it is transported and therefore product performance can be compromised). Orica claimed that in limited circumstances some customers may be prepared to pay a small premium for domestic supply due to flexibility and quality associated with local supply.

Orica advised that, in the eastern states of Australia, and particularly in Queensland, it competes with numerous explosives providers for contracts with mining principals. It also competes with other ammonium nitrate manufacturers including Queensland Nitrates Pty Ltd (Moura) and Dyno Nobel Asia Pacific Pty Ltd (Moranbah) for contracts to supply explosives manufacturers and associated blasting services providers, including mining principals.

5 VERIFICATION OF SALES

5.1 Verification of sales data to audited financial statements

The verification team verified the completeness and relevance of Orica's sales listing (Appendix A4) by reconciling it to Orica Limited's audited financial statements in accordance with ADN No. 2016/30.

The verification team did not find any issues with the verification of the sales listing to audited financial statements.

Details of this verification process are contained in the verification work program at **Confidential Attachment 1**.

5.2 Verification of sales data to source documents

The verification team verified the accuracy of Orica's sales listing by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team found the following issues with the verification of the sales listing to source documents.

Details of this verification process are contained in the verification work program at **Confidential Attachment 1**.

5.2.1 Exception 1 – 100% ammonium nitrate equivalent values and volumes

Orica provided its total sales values and volumes of ammonium nitrate and bulk explosives.

Orica explained that bulk explosives were typically invoiced for finished product (such as ANFO) delivered down the hole; that is, the final product is not 100 per cent ammonium nitrate. However, Orica explained that some large contracts reference a porous prill price (100 per cent ammonium nitrate) at ex-works.

For bulk explosives sales, in order to determine a price that reflects 100 per cent ammonium nitrate equivalent volumes¹¹ at ex-works, Orica calculated the price for each customer using the price recorded in SAP for that customer as follows:

- for larger customers who directly negotiate the ammonium nitrate price using the prevailing price at ex-works; and
- for all other customers, the price is calculated using the ANFO price from Orica's SAP pricing system divided by the formulation for AN content (94 per cent). An ex-works price was calculated by subtracting the freight cost from the production plant to the customer's mine site.

The verification team considers that these netted-back sales prices for ammonium nitrate derived from Orica's bulk explosives sales (referred to by Orica as "ammonium nitrate

¹¹ 100 per cent dry equivalent ammonium nitrate volumes (%wt/wt).

equivalent sales”, as recorded in Appendix A6.1) are suitable for assessing Orica’s economic performance given that these prices follow the same trend as ammonium nitrate prices. However, the verification team considers that these prices are not suitable for establishing an unsuppressed selling price (USP). The verification team considers that, for the purpose of establishing an USP, the Commission could have regard to Orica’s direct sales of ammonium nitrate, as recorded separately in Appendix A4 and A3.

5.3 Related customers

Orica advised that it did not sell ammonium nitrate to any related parties during the investigation period.

5.4 Imports by Orica

The verification team found that Orica imported ammonium nitrate from China, Egypt and Indonesia during the investigation period.

The verification team observes that Orica commenced importing the goods from China in the March 2018 quarter.

At the request of the verification team, Orica completed a cost to import and sell spreadsheet for selected import consignments from China and provided source documentation (e.g. copies of invoices) relevant to importation costs.

The verification team did not find any issues with the reconciliation of the import values and volumes, and the relevant importation costs, to source documents.

Information relevant to Orica’s import consignments and its relevant costs to import (including source documentation) is at **Confidential Attachment 4**.

5.5 Export sales

The verification team found that Orica exported ammonium nitrate to several countries during the investigation period. The export volumes comprised a relatively small proportion of the total volume of ammonium nitrate produced by Orica during the investigation period.

The verification team observes that Orica had separately identified its export sales of ammonium nitrate in its confidential data appendices; therefore, the analysis in section 7 of this report does not reflect Orica’s export sales volumes.

5.6 Sales – conclusion

The verification team considers that Orica’s sales data in Appendix A4 (**Confidential Attachment 5**) and Appendix A3 (**Confidential Attachment 6**) is a reasonably complete, relevant and accurate reflection of the sales of ammonium nitrate during the period from 1 April 2017 to 31 March 2018.

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Accordingly, the verification team considers Orica's sales data in Appendix A4 (and Appendix A3) are suitable for analysing the economic performance of its ammonium nitrate operations from 1 April 2014 to 31 March 2018.

6 VERIFICATION OF COST TO MAKE AND SELL

6.1 Verification of costs to audited financial statements

The verification team attempted to verify the completeness and relevance of Orica's cost data relevant to production at its Kooragang Island and Yarwun manufacturing plants by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

The verification team found the following issues during the verification of Orica's production costs to its audited financial statements, as outlined below.

6.1.1 Exception 1 – Verification of Orica's production costs to audited financial statements

At the verification visit, Orica explained that it cannot demonstrate the reconciliation of its costs of production (relevant to ammonium nitrate produced at its Kooragang Island and Yarwun plants) to Orica Limited's audited financial statements.

Orica explained that the costs recorded in Orica Limited's (the parent company's) financial statements encompass Orica's international operations and the reconciliation of Orica Australia's cost of production is not readily possible because of the complexity and diversity of Orica Limited's global operations.

Given that Orica was unable to demonstrate how its reported costs associated with the manufacture of ammonium nitrate reconciled to its parent company's total cost of goods sold, the verification team could not be satisfied that the cost data provided by Orica reflected all costs associated with the production of ammonium nitrate. However, based on the verification of Orica's internal cost and management reports for both Kooragang Island and Yarwun and the verification to source documents, the verification team is satisfied that the reported cost to make and sell is accurate.

6.1.2 Exception 2 – Orica's selling, general and administration expenses

The verification team observed some minor errors in Orica's allocation of its selling, general and administration (SG&A) expenses to ammonium nitrate. The verification team also observed that Orica had inadvertently included expenses relevant to its export sales in its allocation of SG&A.

Orica updated Appendix A6.1 (containing its cost to make and sell data) to reflect the amended SG&A expenses.

6.2 Verification of costs to source documents

The verification team verified the accuracy of Orica's cost data by reconciling it to source documents in accordance with ADN No. 2016/30.

The verification team did not find any issues with the verification of the costs data to source documents.

Details of this verification process are contained in the verification work program at **Confidential Attachment 1**.

6.3 Related party suppliers

The verification team did not find that Orica is related to any of its suppliers.

6.4 Costs to make and sell – conclusion

The verification team considers that Orica's cost to make and sell data, as recorded Appendix A6.1 (which records consolidated cost data for Orica's Kooragang Island and Yarwun manufacturing sites), is a reasonably accurate reflection of the actual costs to manufacture and sell ammonium nitrate from 1 April 2014 to 31 March 2018.

Accordingly, the verification team considers Orica's cost to make and sell data in Appendix A6.1 suitable for analysing the economic performance of its ammonium nitrate operations from 1 April 2014 to 31 March 2018.

Orica's Appendix A6.1 is at **Confidential Attachment 6**.

7 ECONOMIC CONDITION

7.1 Approach to injury analysis

The verification team understands that the majority¹² of Orica's sales of ammonium nitrate in the Australian market are made in accordance with fixed-term contracts that are typically effective for a period of 3 to 5 years.

The verification team is aware that once the price and volume is contracted, apart from the price variation clauses in the contract which account for movements in costs, the base prices and margins are effectively 'locked-in' for the term of the contract. Therefore, the analysis in this section is based on Orica's production and sales data provided for the period 1 April 2014 to 31 March 2018, which mostly reflects the terms of contracts that were entered into before the investigation period and before the volumes of the goods exported to Australia from China, Sweden and Thailand increased significantly.

To establish a causal link between injury to the Australian industry and the allegedly dumped goods, the verification team will assess the information provided by Orica to support its claims that prices (and the increasing availability) of the goods imported from the subject countries during the investigation period have impacted contract prices that were re-negotiated (where Orica is the incumbent supplier) or negotiated (where Orica made an offer to a potential customer). This injury may be either through price pressure as a result of the allegedly dumped goods (price depression) or through loss of contract (loss of sales volumes). This is further discussed in section 8 of this report.

For completeness, this section of the report outlines the assessment of the performance of Orica's ammonium nitrate operations from 1 April 2014 to 31 March 2018 and some of the factors that have affected performance during this period.

7.2 Applicants' injury claims

In the application lodged on 29 March 2018, the applicants claimed that the Australian industry has experienced injury in the form of:

- a decline in production;
- reduced sales volumes;
- price depression;
- price suppression;
- reduced profit and profitability;
- reduced revenues;
- reduced return on investment;
- lower capacity utilisation; and
- reduction in employment.

¹² The remaining sales are made on a 'spot' basis. As noted in section 4 of this report, the majority of these 'spot' sales were of downgraded ammonium nitrate. Orica describes this as "waste stream".

Subsequent to the initiation of the investigation, the applicants also claimed that the Australian industry has experienced injury in the form of reduced market share and reduced growth in an expanding market.

An assessment of market share will be made using data from the other Australian industry applicants and importers' verified data.

7.2.1 The injury analysis period

The applicants allege that injury from the dumped goods exported from China, Sweden and Thailand commenced in 2016; however, it is claimed that in 2017 the "injury increased" and is considered by the applicants to be material.

The investigation period is 1 April 2017 to 31 March 2018. For the purposes of conducting the injury analysis in this report, the verification team has analysed Orica's data from 1 April 2014.

The analysis detailed in this section of the report is based on verified information and data provided by Orica in support of the application, including Orica's verified production, costs, sales and other financial data.

The verification team's assessment of the Australian industry's injury claims, as they pertain to Orica, are at **Confidential Attachment 7**.

7.3 Volume trends

The applicants claim that the Australian industry has experienced injury in the form of reduced production and sales volumes.

The following sections of the report summarise the claimed injury indicators, in terms of volume effects, and include the verification team's assessment in relation to injury experienced by Orica.

7.3.1 Production volumes

Table 1 shows the variation in Orica's ammonium nitrate production volumes from 2014-15 to 2017-18.

	1 April 2014 - 31 March 2015	1 April 2015 - 31 March 2016	1 April 2016 - 31 March 2017	1 April 2017 - 31 March 2018
Kooragang Island	100	98	103	101
Yarwun	100	77	68	73
Orica - total production ¹³	100	88	86	88

Table 1: Index of production variations

The verification team observes that Orica's total production volumes decreased significantly between 2014-15 and 2016-17; however, production volumes increased

¹³ Production volumes combined for Kooragang Island and Yarwun.

slightly in 2017-18 (the investigation period). The verification team further observes that, while production volumes at the Kooragang Island plant were relatively constant from 2014-15 to 2017-18, production volumes at Yarwun declined significantly since 2014-15.

The verification team notes that in July 2015, Orica had decided to “mothball” (or de-commission) more than 50 per cent of its production capacity at Yarwun (as noted in section 4.2.3 of this report) in response to lower demand for ammonium nitrate in Queensland. This is observed in the significant decline in production volumes at Yarwun in 2015-16 relative to production volumes in the previous period, albeit production volumes have increased in 2017-18.

In late 2017, Orica decided to re-commission the mothballed production capacity at Yarwun in order to supply increasing customer demand in Queensland, and in order to meet its contractual supply obligations in WA due to production issues at the Burrup plant.

Orica provided the verification team with information in relation to the impacts on production volumes in 2017-18 as a result of planned and unplanned production plant maintenance including major plant turnarounds. This information is at **Confidential Attachment 8**.

The analysis of Orica’s production volumes is at **Confidential Attachment 7**.

7.3.2 Sales volumes

Table 2 shows the variations in Orica’s domestic sales volumes from 2014-15 to 2017-18. This analysis is also at **Confidential Attachment 7**.

Orica’s sales volumes are shown separately for direct sales of ammonium nitrate and bulk explosives. Sales volumes shown at 100 per cent ammonium nitrate equivalent volumes encompass sales of both ammonium nitrate and bulk explosives converted to 100 per cent equivalent volumes.

	1 April 2014 - 31 March 2015	1 April 2015 - 31 March 2016	1 April 2016 - 31 March 2017	1 April 2017 - 31 March 2018
Ammonium nitrate	100	112	167	159
Bulk explosives	100	86	79	81
100% AN equivalent volumes ¹⁴	100	95	96	98

Table 2: Index of domestic sales variations

The verification team observes that Orica’s total (100% ammonium nitrate equivalent volumes) sales volumes decreased in 2015-16 (relative to volumes in 2014-15), due to a decrease in sales volumes of bulk explosives. Sales volumes of ammonium nitrate increased in 2015-16 however. Overall, total sales volumes (100% ammonium nitrate equivalent volumes) increased in 2016-17 and 2017-18 (the investigation period).

¹⁴ 100 per cent equivalent ammonium nitrate volumes (%wt/wt).

As noted in other sections of this report, the reduction in total sales volumes in 2015-16 is due to a decrease in demand for ammonium nitrate in Queensland, which has also influenced Orica’s decision to de-commission some production capacity at Yarwun.

7.4 Price trends

In the application, the applicants claimed that the Australian industry has experienced injury in the form of price depression and price suppression.

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.

The following sections of the report summarise the claimed injury indicators (in terms of price effects) and include the verification team’s assessment in relation to Orica.

7.4.1 Price depression and price suppression

Table 3 shows the variations in Orica’s weighted average cost to make and sell (CTMS) and weighted average domestic selling prices from 2014-15 to 2017-18.

The margin between the unit price and unit CTMS has narrowed since 2014-15 due to increasing costs (a 6 per cent increase since 2014-15) and decreasing prices (a 13.5 per cent decrease since 2014-15).

	1 April 2014 - 31 March 2015	1 April 2015 - 31 March 2016	1 April 2016 - 31 March 2017	1 April 2017 - 31 March 2018
CTMS	100.0	99.6	101.7	106.0
Price	100.0	92.7	88.0	86.5

Table 3: Index of cost¹⁵ and price variations

Orica indicated that the decrease in prices observed since 2014-15 is partly due to contract renewals (i.e. renewal of existing contracts) that resulted in relatively lower re-negotiated base prices. To substantiate its claims that some of these reset contract prices were lower because of the influence of the prices of the allegedly dumped goods, in the application lodged on 29 March 2018, Orica provided three specific examples of contract negotiations with existing customers where Orica was the incumbent supplier.

Referring to these examples, Orica claimed that it had to reduce prices to match pricing of the allegedly dumped goods in order to secure the contracts. The verification team notes that these negotiations were conducted before the investigation period; however, supply (and pricing) in accordance with these revised contracts was made during the investigation period.

¹⁵ Costs aggregated for Kooragang Island and Yarwun manufacturing plants.

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The verification team notes that the majority of Orica's sales made during the investigation period were in accordance with fixed-term contracts that were negotiated before the investigation period. The verification team notes that these contracted prices are adjusted on a periodic basis (in accordance with formulas stipulated in these supply agreements referred to as 'rise and fall' provisions) to reflect movements in raw material and other costs. Therefore, the trend in Orica's weighted average domestic prices, as observed in table 3 in this section of the report, would also (apart from the renewal of contracts at revised pricing) reflect the movement in these variables used to adjust contracted prices.

Orica advised that the main factors¹⁶ taken into consideration in adjusting contracted prices are directly linked to the actual sourcing arrangement (i.e. whether the ammonium nitrate is supplied from Kooragang Island or Yarwun) and these factors vary for each customer.

Orica advised that customers in NSW are supplied ammonium nitrate from the Kooragang Island plant and typically the contract prices are adjusted for the movement in gas costs which either reflect Orica's actual gas sourcing costs (i.e. the price payable for gas supplied by a third party, converted to an index) incurred at the plant or, in a small number of cases, the contract prices are adjusted by having regard to an external gas index, such as that published by the Australian Bureau of Statistics (ABS). The verification team observes that Orica's actual gas costs (indexed) have decreased since 2014-15, albeit gas costs have increased in 2017-18.

For ammonium nitrate sourced from Yarwun, the contracted prices are either adjusted using ammonia prices obtained from Fertecon¹⁷ or are adjusted for Orica's gas costs (converted to indices). The verification team has obtained information relevant to ammonia prices¹⁸ from 2012 onwards and observes that ammonia prices have decreased since their peak in 2014 (refer **Confidential Attachment 9**).

Orica's explanation of the rise and fall provisions in its contracts is at **Confidential Attachment 10**.

The verification team also observes that Orica's unit CTMS has increased steadily since 2015-16. The verification team queried Orica about this trend and Orica identified the following factors that mostly drove this trend:

- an increase in Orica's natural gas costs at its Kooragang Island manufacturing site (which also resulted in an increase in the production cost of ammonia transferred from Kooragang Island to Yarwun) as a result of a new contract, at relatively higher pricing, which commenced on 1 January 2017. The effect of the increase in natural gas prices is partly captured in the March 2017 quarter; however, the increase in

¹⁶ The 'main factors' are the factors typically apportioned the greatest weight in the price adjustment formulas.

¹⁷ Fertecon provides independent market information relevant to the global fertiliser industry and markets. Fertecon can be accessed at www.fertecon.com.

¹⁸ Far East delivered ammonia prices, and Middle East and South East Asia Free on Board (FOB) ammonia prices.

natural gas prices mostly affected Orica’s costs of production in 2017-18 (the investigation period);

- an increase in variable costs in 2017-18 due to sourcing ammonia from third parties during a planned ammonia plant turnaround at Kooragang Island; and
- an unplanned plant shutdown at Kooragang Island in the December 2017 quarter impacting production and therefore fixed costs.

Orica provided detailed cost information and further explanations relevant to the cost increases at the Kooragang Island and Yarwun production plants since 2014. This information is at **Confidential Attachment 11**.

7.5 Profit and profitability trends

In the application, the applicants claimed that the Australian industry has experienced injury in the form of loss of profits and reduced profitability.

The applicants allege that profit declined in 2016, and because the Australian industry experienced reductions in selling prices and was unable to ‘adjust selling prices to reflect increases in production costs’, profit and profitability also decreased in 2017.

Table 4 shows the variations in Orica’s net profit and profitability¹⁹ from 2014-15 to 2017-18.

	1 April 2014 - 31 March 2015	1 April 2015 - 31 March 2016	1 April 2016 - 31 March 2017	1 April 2017 - 31 March 2018
Profit	100.0	75.4	59.5	48.5
Profitability	100.0	85.8	70.2	57.3

Table 4: Index of profit and profitability variations

The verification team observes that Orica’s profit and profitability have decreased substantially since 2014-15.

As discussed in section 7.4.1 of this report, this decrease in profit and profitability observed since 2014-15 is the result of the following factors:

- price effects (13.5 per cent decrease in prices since 2014-15): renewal of existing contracts which locked in relatively lower prices for the duration of the contracts; and unfavourable movements in variables (such as ammonia) used to adjust contract prices, resulting in lower observed average prices; and
- cost effects: Orica’s unit CTMS increased by 6 per cent since 2014-15 (noting that costs decreased slightly in 2015-16), which is mostly due to increasing natural gas costs and an increase in variable costs due to sourcing ammonia from third parties during a planned ammonia plant turnaround at Kooragang Island in 2017-18.

These effects have somewhat been offset by increasing sales volumes since 2015-16.

¹⁹ Profitability measured as net profit as a percentage of total sales revenue.

7.6 Other economic factors

In the application, the applicants claimed that the Australian industry has also experienced injury in the form of reduced revenues, a reduction in the return on investment (ROI), lower capacity utilisation and a reduction in employment in 2017.

The verification team’s assessment of these claims, as they pertain to Orica, is outlined in the following subsections.

7.6.1 Revenue

Table 5 shows the variations in Orica’s domestic revenue from 2014-15 to 2017-18.

	1 April 2014 - 31 March 2015	1 April 2015 - 31 March 2016	1 April 2016 - 31 March 2017	1 April 2017 - 31 March 2018
Revenue	100.0	87.8	84.7	84.7

Table 5: Index of revenue variations

The verification team observes that Orica’s domestic sales revenue decreased since 2014-15, and remained relatively stable in 2017-18 (relative to 2016-17). The overall decrease since 2014-15 was driven by lower pricing (for the reasons explained in section 7.4.1) which was partly offset by higher sales volumes since 2015-16 (refer section 7.3.2).

7.6.2 Return on investment

Orica measured its ROI as net profit as a proportion of the value of assets relevant to the production of like goods.

Due to declining net profit as demonstrated in table 4 (refer section 7.5 of this report) and a fairly stable value of assets, Orica’s ROI has decreased since 2014.

7.6.3 Capacity utilisation

Orica’s capacity utilisation has improved since 2015, following a significant decrease in capacity utilisation observed during this period. It is noted by the verification team, however, that Orica has used its ‘nameplate’ production capacity and that this has remained unchanged during the injury analysis period despite the de-commissioning of some production capacity at its Yarwun plant due to lower demand for ammonium nitrate in Queensland.

The verification team’s preferred production capacity measure is budgeted or practical capacity, not nameplate, as budgeted capacity reflects actual available operational capacity at the time capacity utilisation is measured, and given that it does take a period of time before the de-commissioned capacity is ‘brought back’ into operation.

The verification team notes that Orica has re-commissioned this capacity in December 2017. Orica advised the verification team that it can take up to 6 months to for the production plant to be operating at full capacity.

7.6.4 Employment

The number of employees employed in production and sales has decreased since 2014. The verification team understands that the de-commissioning of some production capacity at the Yarwun plant in 2015 resulted in redundancies, and due to increasing efficiency and productivity during the period, Orica does not foresee an increase in employee numbers to the levels prior to the closure.

7.6.5 Capital investment

Orica increased its investment in capital in 2017, with significant investment in the investigation period.

Orica advised the verification team that a large part of the capital investment in the investigation period was due to a required maintenance investment in the Kooragang Island ammonia manufacturing plant which is required every 6 years, referred to as a plant 'turnaround'. Further information concerning the maintenance investment was provided to the verification team following the visit.

7.6.6 Other factors

The verification team has also reviewed a range of other economic factors relevant to Orica that were not claimed by the applicants, as follows:

- **assets** – the value of assets used in the production of like goods has remained constant from 2014, with a slight decrease in the March 2018 quarter;
- **research and development (R&D) investment** – Orica has increased its investment in R&D since 2014;
- **wages** – average wages have remained constant since 2014;
- **productivity** – productivity (measured as tonnes produced per employee) has increased since 2015;
- **inventory (closing stock)** – the volume of Orica's closing stock decreased from 2014 and increased in the March 2018 quarter; and
- **cash flow** – Orica's receivables turnover ratio increased from 2015, however decreased in the March 2018 quarter.

The verification team does not consider that Orica has been injured in the context of the factors identified above.

7.7 Conclusion

Based on an analysis of the information provided by Orica in the application and verified during the verification visit, the verification team considers that Orica has experienced injury during the investigation period in the form of:

- price depression;
- price suppression;
- reduced profit and profitability;
- reduced return on investment;
- reduced employment levels; and
- reduced capital investment.

8 CAUSATION

At the verification visit, the verification team had requested additional information from Orica in relation to specific instances relating to contract negotiations that were influenced by the allegedly dumped goods (either leading to price depression or loss of contract) imported during the investigation period.

Orica outlined two additional examples in a written submission dated 22 August 2018.²⁰

Following this submission, the Commission submitted further questions to Orica and requested additional information in relation to some of the claims made in its submission; which Orica provided (refer **Confidential Attachment 12**).

The assessment outlined in the following sections takes into consideration this additional information provided by Orica.

8.1 Price effects

As noted in section 7 of this report, the majority²¹ of Orica's sales of ammonium nitrate in the Australian market are made in accordance with fixed-term contracts that are typically effective for a period of 3 to 5 years. The verification team is aware that once the price and volume is contracted, apart from the price variation clauses in the contract which account for movements in costs, the base prices and margins are effectively 'locked-in' for the term of the contract.

To establish a causal link between injury to the Australian industry and the allegedly dumped goods, the verification team assessed the information provided by Orica to support its claims that prices (and the increasing availability) of the goods imported from the subject countries during the investigation period have impacted contract prices that were re-negotiated (where Orica is the incumbent supplier) or negotiated (where Orica made an offer to a potential customer). This injury may be either through price pressure as a result of the allegedly dumped goods (price depression) or through loss of contract (loss of sales volumes).

8.1.1 Contract negotiations

Seven case studies relevant to contract negotiations were provided in the application. Of the seven case studies provided, five relate to Orica. The verification team found these negotiations occurred before the investigation period.

Following the verification visit, in a submission dated 22 August 2018, Orica outlined two additional case studies relevant to contract negotiations that occurred during the investigation period. Orica's claims pertaining to each negotiation is outlined below.

²⁰ Refer [item no. 013](#) on EPR 473.

²¹ During the investigation period, the majority of Orica's sales were in accordance with fixed-term contracts, with the remaining sales made on a 'spot' basis. As noted in section 4 of this report, the majority of these 'spot' sales were of downgraded ammonium nitrate. Orica describes this as "waste stream".

Example 1

Orica outlined an example pertaining to negotiations undertaken during the investigation period (and continuing subsequent to the investigation period) with a particular customer to extend an existing supply contract. Orica is the incumbent supplier to this customer and it approached the customer early to extend the existing contract. Orica advised that the customer considered Orica's pricing "too expensive" at the time and the parties to the negotiation were not able to reach an agreement.

As the end of the term of the existing contracts approached, Orica claimed that this customer approached Orica's competitors (domestic and overseas) during the investigation period to source alternative supply. This customer then re-engaged with Orica and requested an updated offer during the investigation period.

Orica provided the verification team with information relevant to its price offers which showed that Orica had revised and considerably reduced its price offers (relative to its contracted prices to this customer in accordance with the existing contract at the time) on a number of occasions during the course of the negotiation. The verification team was provided with an explanation pertaining to Orica's understanding of its competitors' import volumes and prices of the goods exported from the subject countries during the investigation period, however, the verification team considers that while the availability of imports from the subject countries may have played some part in Orica reducing its price offers to ensure that it is competitive, there appear to be other key factors that led to these price reductions which should be further assessed.

The verification team however notes that one feature of the contract being negotiated with this particular customer allows for the variation of the contract price in certain circumstances (based, in part, upon import prices).

The verification team considers that, due to this particular provision, the presence of dumped imports threatens to cause injury to Orica in the form of price depression, reduced profit and profitability and reduced revenue for the duration of the contract. The Commission will further assess whether this provision would allow the allegedly dumped goods to threaten material injury to the Australian industry for the duration of this particular contract.²²

Example 2

This example pertains to Orica's negotiations with a potential customer for a new contract concerning supply of bulk explosives (including ammonium nitrate) and associated services. This negotiation commenced in March 2018.

Orica provided copies of its price offers to this customer. Orica claims that these price offers were "determined by analysis of likely domestic and current import suppliers and

²² In accordance with section 269TAE(2B) of the *Customs Act 1901* and section 3.7 of the Anti-Dumping Agreement of the WTO.

intelligence on their respective history of pricing performance". Orica provided an internal document comparing estimates of competitors' anticipated pricing as well as prices of the goods imported from China (at import factory gate equivalent pricing - IFGE).

The verification team has reviewed the competitor prices as estimated by Orica and notes that domestic prices are more competitive than the estimated IFGE Chinese price.

In relation to its first offer to the customer, Orica claimed that it received feedback that it was not the preferred supplier based on price. Subsequent to this, Orica submitted a revised offer, which Orica claimed was verbally accepted however no contract has been finalised.

Orica provided the verification team with market intelligence relevant to one of its competitor's (which is an importer of the goods from one of the countries subject to this investigation) pricing to other customers in Queensland, implying that this competitor's pricing was lower than Orica's initial price offer. During the course of the investigation, the Commission will assess the relevance of this market intelligence, if any, to this particular contract negotiation.

8.2 Volume effects

The verification team found that both production and sales volumes recovered during the investigation period. No injury has been found in the form of reduced production or sales volumes during the investigation period; however, Orica has provided one example in the application where it has claimed that it had lost a contract to a competitor that sourced ammonium nitrate during the investigation period from one of the countries the subject of the application, therefore, Orica's sales volumes during the investigation period might have been higher 'but for' the allegedly dumped goods.

This claim will be investigated further during the course of this investigation.

8.3 Other factors

8.3.1 Return on investment

The verification team considers that, due to declining net profit as demonstrated in table 4 (refer section 7.5 of this report) and a fairly stable value of assets, Orica's ROI has decreased since 2014. As discussed in section 8.1 of this report, the net profit achieved by Orica during the investigation period is based on contracts entered into prior to the investigation period and therefore cannot be attributed to the allegedly dumped goods.

Following the verification visit, Orica made a submission²³ and provided documents to support its claims that investments in ammonium nitrate manufacturing capacity have a substantial lead time and are based on forecast pricing that it expects will minimise the number of years before a new plant is profitable. Orica claimed that the re-negotiated contracts at lower prices lock in lower margins in comparison with the forecast pricing.

²³ Refer [item no. 012](#) on EPR 473.

The verification team acknowledges that new contracts negotiated during the investigation period at lower pricing would result in reduced ROI and therefore extend investment payback periods which may make future investment in Australian ammonium nitrate manufacturing capability and capacity less attractive. However, the verification team considers that the information provided by Orica is for information only and does not constitute positive evidence linking the alleged dumping to injury in the form of reduced ROI.

8.3.2 Capital investment

The verification team understands that excluding the planned ammonia plant turnaround in 2017, there has been a decrease in other capital investment (refer **Confidential Attachment 7 and Confidential Attachment 13**).

The verification team notes, however, that there is insufficient evidence linking the allegedly dumped goods to the reduction in capital investment during the investigation period. As prices achieved for sales of ammonium nitrate in the investigation period are mostly set out in contracts entered into prior to the investigation period, it is reasonable to assume that the reduction in capital investment observed in 2017-18 is a result of decisions made based on returns expected from these contracts and are not impacted by current contract negotiations for future supply.

8.3.3 Employment numbers

Reductions in employment numbers were due to the de-commissioning of some production capacity at Yarwun. While this capacity has been re-commissioned in late 2017, Orica has advised that employment numbers are not expected to recover to pre-2015 levels due to increases in productivity.

The verification team considers that reductions in employment numbers appear to be partly due to the de-commissioning of production capacity Yarwun and efficiency improvements and cannot be attributed to dumping.

8.4 Factors other than dumping

The verification team considered whether injury has been or is being caused by factors other than the exportation of the goods to Australia from China, Sweden and Thailand.

8.4.1 Manufacturing shutdowns

The verification team observes that, in Orica Limited's 2017 Annual Report, it is stated that Kooragang Island experienced "lower plant utilisation due to an extended plant turnaround, following unforeseen asbestos removal".²⁴

²⁴ Orica Limited Annual Report 2017, p10.

The verification team requested further information concerning planned and unplanned plant production shutdowns and the impact on the production of ammonium nitrate during the investigation period.

Orica claimed that the plant shutdowns did not impact sales of ammonium nitrate as it managed production shortfalls by providing coverage from its other plants. If this was not feasible, then it sourced ammonium nitrate from third party suppliers in the Australian market and, “as a last resort”, it imported the goods to meet its contractual supply obligations.

Orica provided the verification team with information in relation to the impacts on production volumes in 2017-18 as a result of planned and unplanned production plant maintenance including major plant turnarounds. This information is at **Confidential Attachment 8**.

8.4.2 Raw material costs

The verification team observes that, in Orica Limited’s 2017 Annual Report, it is stated that manufacturing costs at Kooragang Island were “unfavourable” due to higher gas costs at Kooragang Island.²⁵

During the verification visit, Orica advised that an increase in its natural gas costs (a feedstock used in the manufacture of ammonia at Kooragang Island) resulted in the increase in production costs observed in table 3 in section 7.4.1 of this report.

This increase in gas costs (including the other factors relevant to costs identified in section 7.4.1 of this report) have partly contributed to price suppression and decreasing net profit and profitability experienced by Orica in 2017-18.

8.4.3 Competition between Australian industry producers

Orica advised that Australian ammonium nitrate manufacturers can and do supply product outside the state in which they are located. However, manufacturers have a significant freight advantage on a delivered ammonium nitrate price basis in respect of mines which are within a close proximity.

Orica stated that it is primarily a commercial explosives and associated services provider to the mining, quarrying and construction industries. Orica explained that most of its income is derived from DTH services, which includes the provision of bulk explosives (ANFO, heavy ANFO and emulsion based explosives) and loading the explosives at the customer’s mine site. Therefore, its major competitors are other explosives and associated blasting services providers, which also import the goods from the subject countries.

The verification team requested further information concerning Yara Pilbara Nitrates (also referred to as the Burrup plant), which is a joint venture between Orica Limited’s and Yara

²⁵ Orica Limited Annual Report 2017, p10.

International ASA's subsidiaries.²⁶ Orica stated that it entered into the joint venture in order to service customers in the Pilbara region, due to the growth in this market in recent years.

The verification team noted that, in late 2017, Orica had won two supply contracts to supply BHP Iron Ore and Roy Hill in the Pilbara region. The verification team understands that the incumbent supplier at the time was an entity that sourced ammonium nitrate from another Australian manufacturer. Therefore, the loss of these contracts cannot be attributed to the allegedly dumped goods.

8.4.4 Imports by Orica

As discussed in section 5.4 of this report, the verification team found that Orica imported ammonium nitrate from China, Egypt and Indonesia during the investigation period. The verification team observes that Orica commenced importing the goods from China in the last quarter of the investigation period (March 2018).

Orica claimed that it had imported ammonium nitrate from these countries for the following reasons:

- to acquire more of a particular grade of ammonium nitrate for emulsion manufacture. Orica claims it would generally source this type of grade from its Yarwun plant, however, due to production ramping up slowly at Yarwun, this was not possible;
- to meet increased demand in Queensland and to manage stock levels during plant shutdowns; and
- to meet contractual supply obligations in the Pilbara region due to the Burrup plant not performing to expectations.

It is the verification team's understanding that the imports by Orica were for the fulfilment of its current contractual obligations and it did not refer to these imports when competing for new contracts.

Nevertheless, the verification team understands ABS import data and other publicly available trade data can be referred to for market intelligence relevant to ammonium nitrate imports in order to appraise alternative supply options including volumes and prices. It is therefore possible for customers of other Australian ammonium nitrate manufacturers to have regard to these prices when negotiating contracts.

Given this, the verification team has reviewed data from the Australian Border Force customs import database²⁷ and observes the following in terms of the FOB export prices of Orica's imports of the goods during the investigation period:

- the weighted average FOB export price of Orica's import consignments from China was higher than the weighted average price of all other import consignments during the March 2018 quarter, and was also higher than the

²⁶ The verification team understands that this joint venture is a separate entity to Orica Australia Pty Ltd.

²⁷ This data was reconciled to Orica's source documentation relevant to its import consignments – refer section 5.4 of this report.

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weighted average export price of goods imported from China during the investigation period;

- the weighted average FOB export price of Orica's import consignments from Indonesia (purchased from a related entity in Indonesia) was higher than the weighted average FOB export price of the goods imported from China, Sweden and Thailand during the investigation period; and
- the weighted average FOB export price of Orica's import consignment from Egypt was higher than the weighted average FOB export price of the goods imported from China, Sweden and Thailand during the investigation period.

This analysis is at **Confidential Attachment 14**.

9 UNSUPPRESSED SELLING PRICE

The Commission generally derives the non-injurious price (NIP) 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 (USP). The USP is generally established using one of the following methods, in order of preference:

- having regard to the Australian industry's selling prices at a time when the Australian market was unaffected by dumping; or
- having regard to the Australian industry's CTMS, plus a reasonable rate of profit; or
- having regard to the selling prices of un-dumped imports in the Australian market.

Having calculated the USP, the Commission then calculates the NIP by deducting costs incurred in getting the goods to the FOB point at export (or another point if appropriate). The deductions normally include overseas freight, duty, insurance, into store costs and amounts for other importer expenses and profit.

The verification team invited Orica to make a submission on its view on the most appropriate method to calculate the USP. Orica had made a submission to the Commission outlining its views on the most appropriate method.²⁸

²⁸ Refer [item no. 033](#) on EPR 473.

10 ATTACHMENTS

Confidential Attachment 1	Verification work program
Confidential Attachment 2	Orica's technical specification sheets
Confidential Attachment 3	Orica's 'spot' sales
Confidential Attachment 4	Orica's imports of ammonium nitrate
Confidential Attachment 5	Orica's AN sales (Appendix A4)
Confidential Attachment 6	Orica's data appendices – A3, A5, A6.1, A7
Confidential Attachment 7	Economic condition - Orica
Confidential Attachment 8	Production impacts during IP
Confidential Attachment 9	Ammonia prices - 2014 to 2018
Confidential Attachment 10	Orica's rise and fall provisions
Confidential Attachment 11	Factors affecting Orica's costs of production - 2014 to 2018
Confidential Attachment 12	Supporting information to Orica's 22 Aug 2018 submission
Confidential Attachment 13	KI ammonia plant turnaround
Confidential Attachment 14	Export price analysis