



CSBP Remote Verification Report

Verification & Case Details

Initiation Date	20/08/2020	ADN:	2020/093
Case Number	565		
The goods under consideration	Ammonium Nitrate		
Case type	Continuation Inquiry		
Australian Industry	CSBP Limited		
Verification from	October 2020	to	January 2021
Inquiry Period	1/07/2019	to	30/06/2020

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PREFACE

On 20 August 2020, the Commissioner of the Anti-Dumping Commission (the Commissioner) published a notice announcing the initiation of an inquiry into whether the continuation of anti-dumping measures in respect of ammonium nitrate exported to Australia from the Russian Federation is justified (Continuation Inquiry 565).

This report details the findings, analysis, evidence relied upon and reasoning on key verification outcomes of data submitted by CSBP Limited to the Anti-Dumping Commission (Commission) by the verification team for publication on the public record.

It provides interested parties with information regarding all material aspects of the verification, including explanations of any material issues identified during the verification. It outlines the nature, extent and consequences of any changes made to the data submitted, including data corrections made by the company or by the verification team.

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

¹ Reference to any sections in this report relate to provisions of the *Customs Act 1901*, unless specifically stated otherwise.

1 COMPANY BACKGROUND

1.1 Corporate structure and ownership

CSBP Limited (CSBP) is 100% owned by Wesfarmers Limited (Wesfarmers), a publicly listed company. CSBP is part of the Wesfarmers Chemicals, Energy and Fertilisers division (WesCEF) of Wesfarmers.

The verification team examined the relationships between related parties to determine whether those entities were involved in the manufacture and sale of the goods. This examination focused on companies within the Wesfarmers group of companies (Wesfarmers Group).

1.1.1 Related suppliers

Wesfarmers Group (which includes Wesfarmers and WesCEF) provide a range of group functions and support functions to companies within the group, including CSBP.

The verification team noted recharges were recorded in the accounts of CSBP for the provision of a range of these services, which were included in the cost to make and sell data provided by CSBP. Having examined the nature of these services and the value of the recharges, the verification team considers that they are materially insignificant to the manufacture of the goods. Consequently, no further examination of these recharges was completed.

The verification team also examined a number of related entities which may have been relevant to the production of like goods. Information provided by CSBP indicated that these entities were either:

- inactive;
- the entities functions or operations had moved to CSBP; or
- they were not relevant to the production of like goods.

1.1.2 Related customers

During the sales upward verification the verification team noted there were internal transfers of ammonium nitrate to the fertiliser business of CSBP. These internal transfers were ultimately further processed to produce goods that were not the goods under consideration in this inquiry (e.g. urea ammonium nitrate). These transfers were not included in the A4 sales data provided by CSBP. The verification team did not consider these internal transfers while performing volume and price analysis and for assessing the economic performance of CSBP.

CSBP advised that they did not sell ammonium nitrate to any Wesfarmers Group company. The Commission also understands that on occasion Australian industry members may sell ammonium nitrate to other non-related Australian industry members. Whilst, names of certain key customers which were available in the public domain were provided to the Commission, CSBP declined to give the Commission a complete listing of all its customers during the inquiry period. The customer names

provided were not members of the Wesfarmers Group. Consequently, the verification team has not been able to complete a substantive verification of CSBP's advice that they did not sell ammonium nitrate to any related parties, beyond the internal transfers to the fertiliser business of CSBP and reviewing the key customer names provided. These limited inquiries did not identify any related customers.

2 THE AUSTRALIAN INDUSTRY MANUFACTURING LIKE GOODS

2.1 Manufacturing in Australia

In the joint application it was claimed that the Australian industry producing ammonium nitrate was comprised of CSBP, Orica Ltd, QNP Ltd, Dyno Nobel Asia Pacific Pty Ltd (Dyno Nobel) and Yara Pilbara Nitrates Pty Ltd (Yara Pilbara Nitrates).²

2.1.1 Production process

CSBP manufactures ammonium nitrate at its production facility in Kwinana, Western Australia (WA). 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. The actual current production capacity of these plants is approximately 825,000 tonnes per annum;
- one ammonium nitrate prilling tower with nameplate production capacity of 350,000 tonnes of prilled ammonium nitrate per annum. The current actual capacity of this plant is approximately 620,000 tonnes per annum;
- two sodium cyanide plants; and
- fertiliser plants that produce fertilisers, including urea ammonium nitrate and other nitrogen-based fertilisers.

During the course of the verification, which was completed remotely, CSBP explained its production process for ammonium nitrate. Based on this explanation and tours of its Kwinana manufacturing site in prior investigations and inquiries, the verification team is satisfied that at least one substantial process in the manufacture of ammonium nitrate is carried out in Australia by CSBP.

² Yara Pilbara Nitrates is a joint venture between Orica Limited and Yara International ASA.

2.2 Verification of model control codes

Table 1 below provides details on the model control code (MCC) sub-categories which were proposed at the time of initiating the inquiry.

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

Table 1: MCC structure

The sales data and cost data provided with the application for the continuation inquiry were not provided in a format that included the Commission's proposed MCC structure at the time of initiating the inquiry.

However, based on the information provided by CSBP the verification team was readily able to match and identify the relevant density and form of the like goods produced and sold by CSBP. It should be noted that in addition to the solid forms specified in the MCC structure (prilled, granular, & other solid forms), CSBP also sold ammonium nitrate as an ammonium nitrate solution (ANSOL) and as an ammonium nitrate emulsion.

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.

The verification team considers that the like goods manufactured by applicant are identical to, or have characteristics closely resembling, the goods exported to Australia, as they:

Physical Likeness

In their application, the applicants claimed that Ammonium nitrate was broadly classified into two grades – low density and high density. In particular they claimed:

- Low density ammonium nitrate ("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 explosives. The applicants claimed that locally produced LDAN was substitutable with imported LDAN.
- High density solid ammonium nitrate ("HDAN") is generally in granular form and is typically used as a fertiliser overseas. HDAN can be used in the manufacture of explosives (particularly emulsion-based explosives).

- HDAN and ammonium nitrate solution produced by the Australian industry are directly substitutable with imported HDAN, given that HDAN and ammonium nitrate solution is sold to the same customers for the purposes of producing ammonium nitrate emulsion.

CSBP provided copies of the product specifications for its prilled product and a summary of the nature of its other products. The verification team considers that while there are differences in the technical specifications (such as purity and density) between the ammonium nitrate exported from Russia and the ammonium nitrate produced by CSBP, the goods produced by CSBP have physical characteristics that closely resemble the imported goods.

Production likeness

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

Functional likeness

As mentioned above, the applicants claimed that ammonium nitrate was 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 is a granular form, is generally used overseas in the agriculture sector as a fertiliser; however, in Australia, HDAN is largely used in the production of emulsion based-explosives.

Whilst CSBP provided limited information in relation to its customers, the information provided indicates that the end customers using its ammonium nitrate products are predominately in the mining or quarrying sector. The verification team notes that the mining sector has historically also used imported ammonium nitrate for the same purposes. Based on this information, the verification team considers that CSBP produces goods that are functionally alike, in terms of having the same end-use application, to the imported goods.

Commercial likeness

Given that CSBP provided limited information in regard to its customers, the verification team were not able to necessarily observe CSBP competing directly with ammonium nitrate imported from Russia during the inquiry period by linking it to the data provided by CSBP. Names of certain key customers were provided to the Commission which could be used for this analysis.

The verification team's analysis of CRE data identifies that blasting service providers within Western Australia have historically imported ammonium nitrate from a range of countries, including Russia, into Western Australia ports. This indicates a degree of competition between Russian imported ammonium nitrate and CSBP produced ammonium nitrate.

2.4 Preliminary like goods assessment

The verification team is satisfied that:

- ammonium nitrate manufactured by CSBP are like to the goods;³
- at least one substantial process of manufacture of ammonium nitrate is carried out in Australia;⁴
- the like goods were, therefore, wholly or partly manufactured in Australia by CSBP;⁵ and
- there is an Australian industry, consisting of CSBP and other Australian producers, which produce like goods in Australia.⁶

³ Section 269T(1).

⁴ Section 269T(3).

⁵ Section 269T(2).

⁶ Section 269T(4).

3 AUSTRALIAN MARKET

The assessment in this chapter is a preliminary assessment by the verification team. The matters in this chapter will be further considered in the Commission's Statement of Essential Facts.

3.1 Background

The verification team understands that in Australia ammonium nitrate is primarily used as a raw material in the production of explosives consumed by the mining, 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 due to its classification as a dangerous good⁷ 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).

As specified in the application for the continuation, there are five manufacturers of ammonium nitrate in Australia, being CSBP, Dyno Nobel Asia Pacific Pty Ltd (Dyno Nobel), Orica Australia Pty Ltd (Orica), Queensland Nitrates Pty Ltd (QNP) and Yara Pilbara Nitrates Pty Ltd (Yara Pilbara Nitrates). In addition to local production, the Australian market is supplied by imports, from a range of countries.

3.2 Market structure

3.2.1 Sales and distribution

As outlined above, ammonium nitrate is predominantly used by the mining and quarrying industries as a raw material in explosives. For this reason the verification team understands that local production facilities are located close to the major mine sites in New South Wales, Queensland and Western Australia.

⁷ 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.

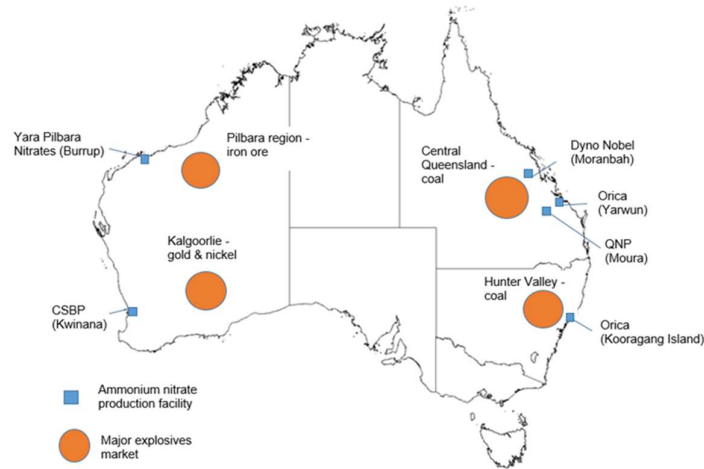


Figure 1: major ammonium nitrate markets and production facilities⁸

It is further understood that purchasers of ammonium nitrate prefer suppliers that are located within close proximity to mitigate freight costs, and to mitigate security and quality risks (noting that ammonium nitrate can clump and degrade in quality the longer it is transported, thereby compromising how the product is handled).⁹

The verification team understands that ammonium nitrate is either sold directly to mining companies that consume ammonium nitrate at the relevant mine site, or is sold to commercial explosive and blasting service providers.

According to CSBP, it is unusual for mining companies to import ammonium nitrate directly, and instead elect to purchase from either local producers or commercial explosive and blasting service providers. In turn, commercial explosive and blasting service providers will either purchase from local producers, import ammonium nitrate directly, or purchase imported goods via particular trading companies. CSBP operates solely as a wholesale manufacturer of ammonium nitrate, and does not provide associated blasting services to mining companies.

CSBP also sells ammonium nitrate into the fertiliser segment, and internally transfers some of the ammonium nitrate solution it produces to the production of urea ammonium nitrate.

Ammonium nitrate is predominantly sold and purchased in accordance with fixed-term contracts (also referred to as supply agreements). CSBP advised that the length of these arrangements varies, but typically last for three to five years. The verification team has been advised by CSBP that all its sales of ammonium nitrate are currently in accordance with fixed-term contracts. CSBP provided the verification team with a broad overview of the nature of its current contracts, but advised that they were unable to provide specific details of each contract due to the confidentiality terms of those contracts.

⁸ Figure 1 is sourced from Report 473

⁹ Based on findings in Report 473.

3.2.2 Use of ammonium nitrate in different forms

As outlined in Chapter 2, CSBP produces ammonium nitrate solution, which can either be:

- sold to the customer in that form (so long as the customer is within close proximity);¹⁰
- sold for use in the manufacture of fertiliser;¹¹
- converted into solid low density porous prill (for use in dry blasting applications); or
- converted into emulsion (for use in wet blasting applications).

According to CSBP, mining customers will purchase a combination of both solid prilled and emulsified ammonium nitrate, depending on the conditions of the blast. CSBP estimated there is a 70/30 split in favour of prilled product.

CSBP advised that for the Australian market, ammonium nitrate is only converted into a solid high density form for the purpose of transportation. As high density product must be melted down into an ammonium nitrate solution (and then further converted into an emulsion), there is no need for local manufacturers, who are already able to supply ammonium nitrate in a solution or emulsion form, to also sell ammonium nitrate as a high density solid.

The verification team considers this position is supported by the Commission's earlier assessment in exemption inquiry EX0066 where it was found that:

- high density ammonium nitrate and ammonium nitrate solution are sold to the same customers for the purpose of producing ammonium nitrate emulsion;
- high density ammonium nitrate and ammonium nitrate solution, which are both used to produce ammonium nitrate emulsion, are directly competitive; and
- the Australian industry offers for sale goods that are directly competitive to high density ammonium nitrate.¹²

Having reviewed data contained in the Australian Border Force import database, the verification team notes that all ammonium nitrate imported from Russia during the inquiry period was high density ammonium nitrate (albeit in low volume), although there are instances of low density product being imported during earlier years.¹³

¹⁰ Given heating is required to maintain the liquid form of ammonium nitrate solution, it is difficult to store and cannot be transported significant distances.

¹¹ NB ammonium nitrate cannot be used as a direct application for fertiliser in Australia, given it is required to have a concentration below a certain percentage.

¹² Electronic Public Record [archived investigations] EX0066, document 17.

¹³ This assessment is based on the 'dumping specification number' at the time of import.

3.3 Demand

CSBP advised that demand for ammonium nitrate is primarily driven by its downstream use as a commercial explosive. As a result, demand in Western Australia is primarily driven by the mining of iron ore and gold.

In CSBP's view, the West Australian market has continued to grow since the measures were last continued due to rising iron ore and gold prices. The verification team confirmed from historical data published by the Office of the Chief Economist¹⁴ that iron ore production in Australia increased by 10% between 2015-16 and 2019-20,¹⁵ and that gold mine production increased by 15%. The data also confirmed that iron ore pricing¹⁶ increased by 88% between the June quarters of 2016 and 2020, and that gold prices¹⁷ increased by 55%.

Forecast data published by the Office of the Chief Economist estimates that nominal iron ore pricing will decrease by 18% over the next 24 months, while gold would decrease by 5% (notwithstanding a slight increase over the first 12 months).¹⁸

According to CSBP, there are no commercially significant alternatives or substitutes for ammonium nitrate used by the mining industry in Australia to produce explosives (referred to as technical, industrial or explosive grade ammonium nitrate).

During the course of the verification CSBP provided information on the anticipated demand for ammonium nitrate and the anticipated growth in the Western Australia markets that are predominately end users of ammonium nitrate.

3.4 Pricing

As outlined above, all of CSBP's sales are currently made under contractual supply agreements. CSBP advised that pricing in these agreements includes a variable component that is adjusted on a periodic basis to pass through raw material costs or prices (either ammonia or natural gas) via global market indices, as well as a fixed component (or base price) that remains in place for the life of the contract. These provisions are the primary method by which local manufacturers preserve margins during the life of the contract.

3.4.1 Price sensitivity

CSBP claimed that the Australian market will tend towards the lowest import price due to the significant impact that volume loss can have on the recovery of fixed costs. While CSBP is not usually faced directly with competing offers in the market,

¹⁴ Department of Industry, Science, Energy and Resources, Office of the Chief Economist, Resources and Energy Quarterly (September 2020).

¹⁵ Based on a July to June period.

¹⁶ Based on the free-on-board price per tonne in Australian dollars.

¹⁷ Based on price per ounce in Australian dollars.

¹⁸ Based on estimated quarterly free-on-board nominal pricing per tonne in United States dollars.

the price of imports generally is still used in negotiations, and can therefore result in price depression and profit loss to the manufacturer.

CSBP provided internal documents which they advised evidenced that import prices were monitored by CSBP.

As outlined in Chapter 2, the verification team considers that ammonium nitrate is a commodity product, and that end users are unlikely to discern significant physical or functional differences. Given there is little product differentiation, the verification team considers it likely that price will be a key consideration in any purchasing decision.

4 VERIFICATION OF SALES COMPLETENESS AND RELEVANCE

Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial accounts. The total sales value and quantity is reconciled to management reports with particular attention given to ensuring that all relevant transactions are included and irrelevant transactions are excluded. The total value from the management reports is then reconciled to the total revenue figure reported in the audited income statement.

The verification team verified the completeness and relevance of the Australian sales listings by reconciling these to audited financial statements in accordance with ADN No. 2016/30.

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

- The verification team reconciled the A4 listing provided by CSBP to its internal management accounting system JD Edwards.
- The ammonium nitrate revenue was reconciled to the financial records of CSBP and then to the financial records of the WesCEF division.
- Given that audited financial statements are not completed at the CSBP company level or at the WesCEF division level, the verification team reconciled the reported EBIT of the WesCEF division to the audited financial statements of Wesfarmers.

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**.

4.1 Exceptions during verification of sales completeness and relevance

No.	Exception	Resolution
1	The verification team observed that an importation of ammonium nitrate consignment handled by CSBP on behalf of a large customer was included in the A4 listing.	As the sales were not of ammonium nitrate produced by CSBP and was an importation of AN handled by CSBP on behalf of its customer, the verification team excluded this transaction from the sales listing.

Table 2 Exceptions during verification of completeness and relevance of sales data

4.2 Import sales by applicant

During the inquiry period, CSBP arranged for one importation of ammonium nitrate. While the import transaction invoice was raised during within the inquiry period, the actual delivery of the ammonium nitrate to the Australian port occurred outside the inquiry period. CSBP explained that the import was one off in nature and attributed it to planning for lower demand in anticipation of lower economic activity due to the

impacts of COVID-19. Contrary to expectations the demand in Western Australia from mining customers being stronger than anticipated. Consequently, CSBP had to augment its ammonium nitrate production with an one-off shipment of imported ammonium nitrate.

4.3 Export sales by applicant

CSBP did not export any ammonium nitrate during the inquiry period.

4.4 Sales completeness and relevance finding

The verification team is satisfied that the sales data provided in the application by CSBP, including after any required amendments as outlined in the exception table above, is complete and relevant.

5 VERIFICATION OF SALES ACCURACY

The accuracy of data is verified by reconciling selected data submitted "downwards" to source documents. This part of verification involves the process of agreeing the volume, value and other key information fields within the sales data down to source documents. This verifies the accuracy of the data.

The verification team verified accuracy of the Australian sales listings submitted in the REQ by reconciling these to source documents in accordance 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**.

5.1 Exceptions during verification of sales accuracy

No.	Exception	Resolution
1	The verification team noted during the verification that CSBP had included some domestic sales of nitric acid in its sales listing.	As nitric acid is not like goods or the goods under consideration, the verification team excluded the nitric acid sales from the sales listing for the purpose of price and volume analysis.
2	Delivery terms not specified for all the sales traced to source documents.	The verification team could not verify the delivery terms for all the sampled invoices. Only for 3 of the 12 sampled invoices, could the verification team indirectly verify the delivery terms. For the remaining invoices as the delivery terms were in specified in the supply contract, which CSBP did not provide to the verification team, the delivery terms of those sales could not be verified.
3	Names of customers were not provided in the sales listing for the inquiry period. CSBP advised that they were prevented from providing the names of their customers in their sales listing due to the confidentiality requirements of their contracts. The internal customer number for each transaction was however provided.	As a result of not including customer names, the verification team considers that there may be some limitations in the analysis that can be completed on CSBP's sales during the inquiry period for the purposes of this inquiry.

Table 3 Exceptions during verification of accuracy of sales data

5.2 Related party customers

The verification team observed that CSBP internally transferred ammonium nitrate solution to its fertiliser business. The verification team observed that no invoices were raised on these internal transfers of ammonia nitrate and were not part of the sales listing provided by CSBP.

As these internal transfers to the fertiliser business were used to manufacture products which are not the goods, the Commission considers these transfers to not be relevant to the sales analysis in this inquiry

The verification team is satisfied that CSBP's selling prices for ammonium nitrate to customers can be relied upon in the assessment of the economic condition of the Australian industry.

5.3 Sales accuracy finding

The verification team is satisfied that the sales data provided in the application by CSBP, including any required amendments as outlined in the exception tables above, is accurate. Details of this verification process are contained in the verification work program and its relevant attachments, at Confidential Attachment 1.

Accordingly, the verification team considers CSBP's sales data is suitable for analysing the economic performance of its ammonium nitrate operations from 1 July 2019 to 30 June 2020 within the constraints of the abovementioned limitations in the data provided.

6 VERIFICATION OF CTMS COMPLETENESS AND RELEVANCE

Verification of relevance and completeness is conducted by reconciling selected data submitted "upwards" through management accounts up to audited financial accounts. The total cost to make data is reconciled to the cost of production in the management reports with particular attention given to ensuring that all relevant costs are included and irrelevant costs have been excluded. The cost of production data is then reconciled, through relevant account ledgers, to the cost of goods sold figure reported in the audited income statement. Additionally, selling, general and administration (SG&A) expenses are reconciled to income statements, with particular attention given to specific expenses that were excluded or should be excluded.

The verification team verified the completeness and relevance of the cost to make and sell (CTMS) information provided in the application data by reconciling it to audited financial statements in accordance with ADN No. 2016/30.

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

- The verification team reconciled the cost to manufacture for the period 1 July 2019 to 30 June 2020 to the cost of goods sold, after adjusting for inventory movements, to the management accounts of CSBP and then to the management accounts of the Chemicals, Energy and Fertilisers division (WesCEF) of Wesfarmers.
- Given that audited financial statements are not completed at the CSBP company level or at the WesCEF division level, the verification team reconciled the reported EBIT of the WesCEF division to the audited financial statements of Wesfarmers.

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

- The verification team reconciled the SG&A data for the period 1 July 2019 to 30 June 2020 to the management accounts of CSBP and then to the management accounts of the WesCEF division of Wesfarmers.
- Given that audited financial statements are not completed at the CSBP company level or at the WesCEF division level, the verification team reconciled the reported EBIT of the WesCEF division to the audited financial statements of Wesfarmers.

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**.

6.1 Exceptions during verification of completeness and relevance of CTMS data

No.	Exception	Resolution
1	CSBP transfers its manufactured ammonia to the production of ammonium nitrate at a price equivalent to that paid by CSBP's external ammonia customers. CSBP imports the balance of its ammonia requirements for its ammonium nitrate business, and these imports are costed at the full import cost.	The verification team has substituted CSBP's ammonia transfer price with CSBP's actual costs to produce ammonia and updated CSBP's CTMS data relevant to ammonium nitrate production.
2	CSBP during the course of the verification noted that it had not allocated an amount of costs to the production of ammonia	The costs allocated were not materially significant. However, CSBP submitted a revised cost to manufacture for ammonia which included these additional costs

Table 4 Exceptions during verification of completeness and relevance of CTMS data

6.2 CTMS completeness and relevance finding

The verification team is satisfied that the CTMS data provided in the application by applicant, including any required amendments as outlined in the exception table above, is complete and relevant.

7 VERIFICATION OF CTMS ACCURACY

7.1 Cost allocation method

The verification team verified the reasonableness of the method used to allocate the cost information, in accordance with ADN No. 2016/30.

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**.

Table 5 below outlines the allocation method applied to each cost item.

Cost item	Method applied
Raw Materials	Raw material costs were allocated on the basis of production quantity for the finished goods.
Manufacturing Overheads	Manufacturing overhead costs were allocated on the basis of production quantity for the finished goods.
Labour	Labour costs were allocated on the basis of production quantity for the finished goods
Depreciation	Depreciation costs were allocated on the basis of production quantity for the finished goods

Table 5 Cost calculation method

7.2 Verification of accuracy of CTMS data

The accuracy of data is verified by reconciling selected data submitted "downwards" to source documents. This part of verification involves the process of agreeing the volume, value and other key information fields within the cost data down to source documents. This verifies the accuracy of the data.

The verification team verified the accuracy of the CTMS information by reconciling it to source documents in accordance with ADN No. 2016/30.

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**.

7.3 CTMS verification finding

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

Accordingly, the verification team considers CSBP's CTMS data is suitable for analysing the economic performance of its ammonium nitrate operations.

8 ECONOMIC CONDITION

8.1 Background

Dumping measures were first applied to the goods exported to Australia from Russia on 24 May 2001 and have been then amended as a result of earlier continuation inquiries in 2006, 2011 and 2016.

An assessment as to whether the expiration of measures would lead, or would be likely to lead, to a continuation or recurrence of the material injury that the anti-dumping measures are intended to prevent involves a consideration of future outcomes based in part on an evaluation of the present position. To assist with that assessment, this chapter considers the economic condition of CSBP from 1 July 2015.

8.2 Approach to analysis

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

The verification team has assessed the economic condition of CSBP from 1 July 2015 using the information provided by CSBP. The figures presented have been compiled on an annual basis for years ending on 30 June. This preliminary assessment is at **Confidential Appendix 1**.

8.3 Volume effects

8.3.1 Sales volume

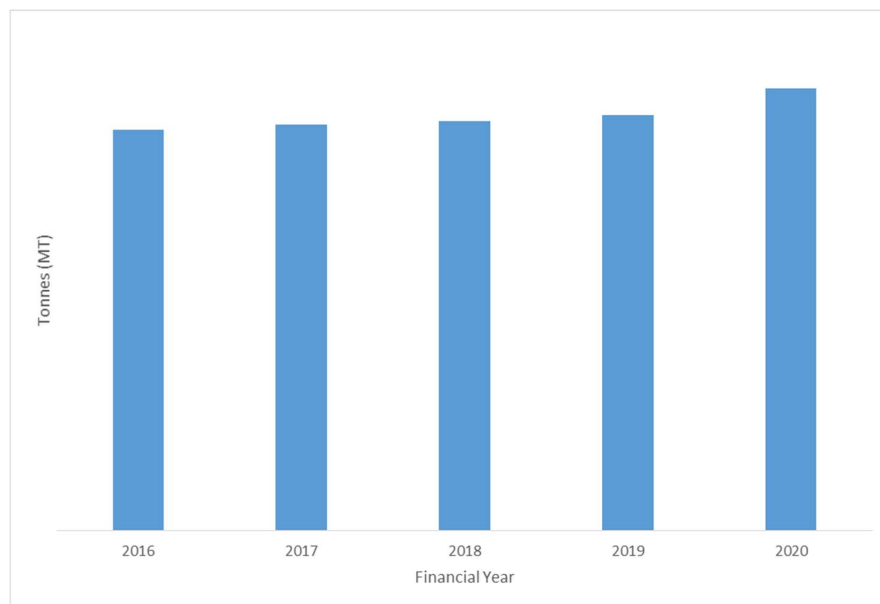


Figure 2 - Sales volume

As reflected in Figure 2 above, an increase in the volume of sales during the analysis period was observed.

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 July 2015 and June 2020.

The verification team has observed that overall, between July 2015 and June 2020 unit CTMS costs have increased and unit selling prices have stayed relatively stable with a reduction during the inquiry period. This has resulted in a narrowing of the absolute and relative margin between average unit sale prices and unit CTMS.

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 profit and profitability for the period between July 2015 and June 2020.

Overall, CSBP has experienced a reduction in profitability and profit between July 2015 and June 2020.

8.6 Other economic factors

The A7 other factors data provided by CSBP was reviewed by the verification team.

CSBP have claimed confidentiality over the inclusion of charts, indices or any further detailed commentary in relation to CSBP's other economic factors for the period between July 2015 and June 2020.

9 IMPACT OF THE EXPIRY OF MEASURES

The assessment in this chapter is a preliminary assessment by the verification team. The matters in this chapter will be further considered in the Commission's Statement of Essential Facts.

9.1 Background

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

In summary, the application for the continuation inquiry claimed that:

- ammonium nitrate exported to Australia from Russia in August 2019 was at dumped prices;
- exporters in Russia have retained distribution links and channels of supply to the Australian market, as evidenced by the continuing import volumes;
- Russia is a significant global source of ammonium nitrate (both high and low density), and producers in Russia possess significant excess capacity to increase supply of ammonium nitrate to Australia should the measures be allowed to expire;
- Russian exports of ammonium nitrate to destinations other than Australia have been at free-on-board (FOB) prices below the FOB prices of exports to Australia. Should the anti-dumping measures be allowed to expire, it is considered likely that Russian export prices to Australia would decline sharply, consistent with those lower prices to other destinations;
- the anti-dumping measures on ammonium nitrate exported to Australia from Russia have been effective to date; and
- the returns on new and expanded capital investments made by Australian producers of ammonium nitrate, following the continuation of measures in 2016, will be at risk from the likely increase of dumped exports from Russia if the measures expire.

Accordingly, the verification team sought CSBP's views on these matters, and collected evidence to support those claims. This evidence will be considered further during the course of the inquiry.

9.2 Discussion

During the verification CSBP elected to draw particular attention to certain aspects of the application, such as the spare capacity available in Russia, its propensity to export large volumes, and the FOB prices at which those exports are sold to other countries (compared to Australia).

According to CSBP, over the time that measures have been in place, Russia has shifted from solely exporting high density ammonium nitrate to Australia to exporting a combination of both high and low density. In CSBP's view, there is a greater return

in some markets on sales of low density solid; however, the company did not provide any evidence to support this claim.

In CSBP's view, the dynamics of the Australian market are such that purchasers will always shift to the next best option in terms of price. CSBP claims that there are no structural impediments to importing ammonium nitrate, a commodity product, CSBP maintains that allowing the measures against Russia to expire will allow that country to re-emerge as a next best option for purchasers. CSBP further advised that:

- importing ammonium nitrate into Western Australia is quite achievable operationally due to port access in multiple locations combined with adequate storage infrastructure in place at each port location, which is accessible through independent third parties, and
- all players have the size, sophistication and capacity to operate an import supply chain.

The verification team confirmed that the company was welcome to make a submission to the inquiry at any time should it wish to submit further evidence.

9.3 List of current contracts and likely tenders occurring after May 2024

The verification team requested CSBP to complete a schedule which included information on each of its current contracts to supply ammonium nitrate to its customers. CSBP declined to complete this schedule, indicating that the confidentiality clauses of these contracts prevented them from disclosing the information to the level of detail requested by the Commission. CSBP did provide the names of key customers which are available in the public domain and provided an overall description of the nature of its current supply contracts with all customers.

CSBP also provided a summary of CSBP and non CSBP contracts it was aware of that are likely to come up for retender over the next five years. The verification team noted that there was a materially significant quantity of ammonium nitrate demand that would come up for retender within the next five years.

CSBP also provided:

- data relating to its internal forecasts for growth in the demand for ammonium nitrate for the period up until the financial year ending 2024; and
- a reference to the Department of Industry's Resources and Energy Quarterly Report for September 2020 in regard to the likely growth in demand for iron ore.

The verification also sought CSBP to identify relevant examples of import prices being considered in the negotiation of prices.

CSBP advised that the link between import price parity (IPP) and customer negotiations had been well established in prior inquiries. CSBP advised that IPP was typically discussed verbally or in terms of "next best alternative".

CSBP advised that IPP is monitored internally by CSBP and the wider division to which CSBP belongs. CSBP advised that due to its significant impact on pricing and

EBIT, IPP was monitored closely at the senior management level. CSBP provided an extract from a regular Divisional Board Report as well as an extract from a recently submitted five year business plan which they stated evidenced the usage of IPP internally. These documents and CSBP's claims concerning IPP will be assessed further during the course of this inquiry.

10 APPENDICES AND ATTACHMENTS

Confidential Attachment 1	Verification work program
Confidential Appendix 1	Economic Performance of CSBP