PUBLIC RECORD

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Department of Industry, Science, Energy and Resources

Anti-Dumping Commission

Orica Australia Pty Ltd Verification Report

Verification & Case Details

Initiation Date	19/08/2020	**ADN:**	2020/093
Case Number	565		
The goods under consideration	Ammonium Nitrate		
Case type	Continuation Inquiry		
Australian Industry	Orica Australia Pty Ltd		
Verification from	November 2020	**to**	February 2021
Inquiry Period	1/07/2019	**to**	30/06/2020

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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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 Orica Australia Pty Ltd 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

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

1.2 Related parties

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

1.2.1 Related suppliers

The verification team observed that Orica Australia Pty Ltd procurement of natural gas which was managed on a cost basis by another group company, Orica International Pte Ltd, a Singapore based entity.

The verification team also observed that Orica Australia had on occasion relied on group entities, including Orica Singapore Pte Ltd, to source imported ammonium nitrate prior to the inquiry period.

These natural gas purchases, were examined for the purposes of assessing the arms-length nature of these purchases given that they were sourced through a related trader acting as an intermediary in the transactions. This analysis found that the gas prices paid by Orica Australia were consistent with arm's length pricing.

1.2.2 Related customers

The verification team did not find evidence that Orica is related to any of its 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 Ltd, Orica Australia, QNP, Dyno Nobel Asia Pacific Pty Ltd (Dyno Nobel) and Yara Pilbara Nitrates Pty Ltd (Yara Pilbara Nitrates).[2]

Orica Australia predominately supply's the eastern seaboard market.

2.1.1 Production process

Orica has two ammonium nitrate production facilities located respectively on Kooragang Island (KI) in New South Wales and in Yarwun, Queensland.

The KI plant is a fully integrated production facility capable of using natural gas as the primary raw material ingredient to produce ammonium nitrate. The Yarwun plant is equipped to produce ammonium nitrate from ammonia. The Yarwun plant sources ammonia either from the KI plant or from third party suppliers.

The KI plant has the following production facilities:

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

The Yarwun manufacturing plant is comprised of the following production facilities:

- 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 capacities of 530,000 tonnes per annum;
- an ammonium nitrate emulsion plant; and
- a sodium cyanide plant.

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

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

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

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

Based on details provided during this remote verification and the findings 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 Orica Australia.

2.2 Verification of model control codes

Error! Reference source not found. below provides detail on the model control code (MCC) sub-categories which were proposed on initiation of 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 form		

Table 1: MCC structure

Orica's data provided with the application did not classify sales and cost data on the basis of the Commission's proposed MCC structure.

During the verification Orica provided all the relevant documents and information to identify the density and form of the ammonium nitrate produced by them. Orica did not produce the high density (HDLAN) variant of ammonium nitrate during the inquiry period. However, Orica claimed that it produced an alternative product, namely ammonium nitrate solution, which is used in the same application as high density ammonium nitrate.

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

Orica provided presentations describing the goods it produced and provided its product list with the technical composition of each of its products. Orica confirmed that they did not produce the high density variant of ammonium nitrate during the inquiry period.

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 Orica Australia, the goods produced by Orica Australia have physical characteristics that closely resemble the imported goods.

Production likeness

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

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 Australia's sales data and observed that Orica Australia sold ammonium nitrate to customers that had also imported the goods. Based on this, the verification team is satisfied that Orica Australia produces like goods that are sold to the same customers and therefore these goods compete directly with 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 can be in a granular or prilled form, is generally used overseas in the agriculture sector as a fertiliser; however, in Australia, HDAN is largely used in the production of bulk emulsion, which is used in bulk explosives.

The verification team reviewed Orica Australia's sales data for the inquiry period and observed that Orica had sold either LDAN and/or ANSOL to certain bulk explosives producers and blasting service providers, including bulk explosives producers that have previously imported HDAN.

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

2.4 Preliminary like goods assessment

The verification team is satisfied that:

- ammonium nitrate manufactured by Orica Australia are like goods to the goods under consideration in this inquiry;[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 Orica Australia;[5] and
- there is an Australian industry, consisting of Orica Australia 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 good[7] 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 inquiry, there are five manufacturers of ammonium nitrate in Australia, being CSBP, Dyno Nobel, Orica, Queensland Nitrates and Yara Pilbara Nitrates. In addition to local production, the Australian market is supplied by imports, from a range of countries.

3.2 Market structure

The eastern seaboard ammonium nitrate plants are located in NSW and Queensland. These plants primarily supply ammonium nitrate for use in eastern seaboard coal and metal mines. The western seaboard market is primarily focused on supplying ammonium nitrate for use in iron ore, gold and other metal mines. With the commissioning of the Burrup facility in Western Australia, production capacity on the western seaboard is anticipated to increase by 330,000 metric tonnes. Burrup is a joint venture between Orica and Yara International. Previously, Orica also serviced the Western Australian market primarily through Orica group's ammonium nitrate plant in Bontang, Indonesia. It is also noted that various blasting service operators service both the east and west coasts of Australia.

3.2.1 Marketing and distribution

The eastern seaboard and the western seaboard market segments have distinctly different size and growth characteristics. While the eastern seaboard market segment has been primarily experiencing a plateauing of growth, the western seaboard market has been showing stronger growth in demand. There are infrequent instances when Australian industry may supply to the opposite seaboard. However, given the costs of transporting ammonium nitrate, these sales are limited.

[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.

On occasion there may be swap agreements between manufacturers to realise freight savings.

Orica Australia advised that its domestic sales are essentially completed through long term supply contracts typically running for between 2 and 5 years. Tendering for these contracts typically commences about 12 to 18 months before the start of the contract. A small amount may also be sold in the spot market on an ad hoc basis. The end users of ammonium nitrate (i.e. mines) may enter into agreements with explosive services providers, who in turn may enter into long term supply contracts with ammonium nitrate suppliers.

Orica Australia, in addition to manufacturing and selling ammonium nitrate, sells commercial explosives products, explosive loading services, cyanide and other technology based services. Orica primarily sees itself as a mining industry service provider. However, it does supply ammonium nitrate into the market without the provision of associated blasting services.

3.2.2 Demand

Orica advised that the demand for ammonium nitrate in Australia is primarily driven by the demand for explosives in the mining sector. It advised that the mining sectors demand and/or need for explosives will vary depending on a number of factors relevant to each mine. Orica advised that agricultural use and medical use of ammonium nitrate was a small component of the overall market.

3.3 Pricing

Orica advised that the price setting for all its long-term contracts is completed through the tendering process. Some of contracts allow for price adjustments linked to movements in input costs for ammonia and natural gas, the CPI, labour and/or other factors.

The operation of these price adjustments is negotiated with each of the buyers during the tendering process. Orica claimed that large customers commonly reference the landed import price of ammonium nitrate when negotiating contract prices.

3.4 Market supply

Orica indicated that this demand was primarily met by Australian manufacturers. The shortfall between demand and supply are met through imported ammonium nitrate. Subsequent to production facility in Burrup commencing commercial levels of production, Australian industry’s capacity has increased, reducing this shortfall gap traditionally met with imports.

Orica advised that the eastern seaboard and the western seaboard markets segments have distinct size and growth characteristics. The eastern seaboard market, which has been primarily supplying coal mines and to a lesser extent metals mining, had experienced plateauing of growth. The Western Australian market has

shown stronger demand growth. Orica estimated that the demand for ammonium nitrate from thermal coal was expected to experience a marginal contraction over the next 5-6 years, while the demand from metallurgical coal and iron ore was expected to grow over the same period.

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 100% ammonium nitrate equivalent of all the 'gross' sales volume that was listed in the A4- Domestic sales listing with the sales volume provided in A2, A3 and A4 as well as Orica's internal management accounting system 'BI Hana'.
- The verification team reconciled the aggregate sales value for the first three months of the inquiry period to the audited financial results for the year ending September 2019. For the remaining 9 months of the inquiry period, which fell into Orica's subsequent financial year (financial year ending September 2020), the verification team reconciled the sales value to its internal management accounting system as the audited accounts were not available at the time of the verification.

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**.

4.1 Import sales by applicant

During the inquiry period Orica imported ammonium nitrate from Bontang, Indonesia which was supplied by a related company in the Orica group. These amounts were imported into Western Australian to meet supply commitments while the technical start up issues at the Burrup facility were resolved.

4.2 Export sales by applicant

Orica Australia did export a small volume of ammonium nitrate during the inquiry period. These exports were primarily to Orica's regional operations in PNG, New Caledonia and New Zealand in the form of bulk emulsion. The verification team was able to verify these exports during the upwards sales verification process and by reference to ABF import data.

4.3 Sales completeness and relevance finding

The verification team is satisfied that the sales data provided in the application by Orica Australia Ltd 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 minor discrepancies in sales values and volumes between the sales listing provided by Orica and its accounting system. Orica attributed these discrepancies to rounding and translation errors. These discrepancies were considered immaterial by the verification team and were not considered to be an exception. Details of this verification process are contained in the verification work program and its relevant attachments, at **Confidential Attachment 1**.

5.1 Sales accuracy finding

The verification team is satisfied that the sales data provided in the application by Orica Australia, 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 Orica Australia sales data is suitable for analysing the economic performance of its ammonia nitrate operations from 1 July 2019 to 30 June 2020.

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 REQ 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:

- It also reconciled the cost to make data in A6.1 to the Orica's internal management accounting system.
- The verification team then reconciled the cost to make data provided by Orica through its management accounts to the audited financial statements for Orica Australia for the first three months of the inquiry period.

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

- The verification team reconciled the SG&A expenses for the inquiry period i.e. July 2019 to June 2020 to the internal management accounting system

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

6.1 CTMS completeness and relevance finding

The verification team is satisfied that the CTMS data provided in the application by Orica Australia 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 1 below outlines the allocation method applied to each cost item.

Cost item	Method applied
Raw Materials	Raw material costs are allocated to the ammonium nitrate production based on production quantity and actual costs, except for ammonia transferred from Yarwun to the KI plant. Ammonia to the KI plant is transferred on standard cost basis. The verification team verified that KI's ammonia cost data and confirmed that any difference in actual costs from the standard costs was captured in the standard cost variance. The standard costs combined with the variance for each month are reflected in the total cost to manufacture provided to the Commission.
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 1 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 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**.

7.3 Exceptions during verification of accuracy of CTMS data

No.	Exception	Resolution
1	The verification team found that some of the cost elements of the CTMS did not match the amounts in Orica's management systems.	Orica attributed the non-matching numbers to errors in the CTMS data provided. Orica updated the CTMS data and provided revised figures.

Table 2 Exceptions during verification of accuracy of CTMS data

7.4 Related party suppliers

The verification team noted during the verification that Orica Australia sourced some of the gas purchases through its Singapore based related entity, Orica International Pte. Ltd. The verification team assessed the transactions and confirmed Orica's claim that Orica International sold the gas to Orica Australia on a cost basis and that the prices were consistent with the prevailing market gas prices.

7.5 CTMS verification finding

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

Accordingly, the verification team considers Orica Australia's CTMS data is suitable for analysing the economic performance of its ammonium nitrate operations from July 1, 2019 to June 30, 2020.

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 measure is intended to prevent involves a consideration of future outcomes based on an evaluation of the present position. To assist with that assessment, this chapter considers the economic condition of the Australian industry since 1 July 2015.

8.2 Approach to injury analysis

The analysis detailed in this chapter is based on verified financial information submitted by Orica and data from the Australian Border Force (ABF) import database.

The verification team has assessed Orica's economic condition using the information provided by the applicant. Volume, price and profit figures presented have been compiled on a financial year basis from 1 July 2015 to 30 June 2020. Other economic factors analysis is in calendar years commencing 1 January 2015 until 31 December 2019. This preliminary assessment is at **Confidential Appendix 1**

8.3 Volume effects

8.3.1 Sales volume

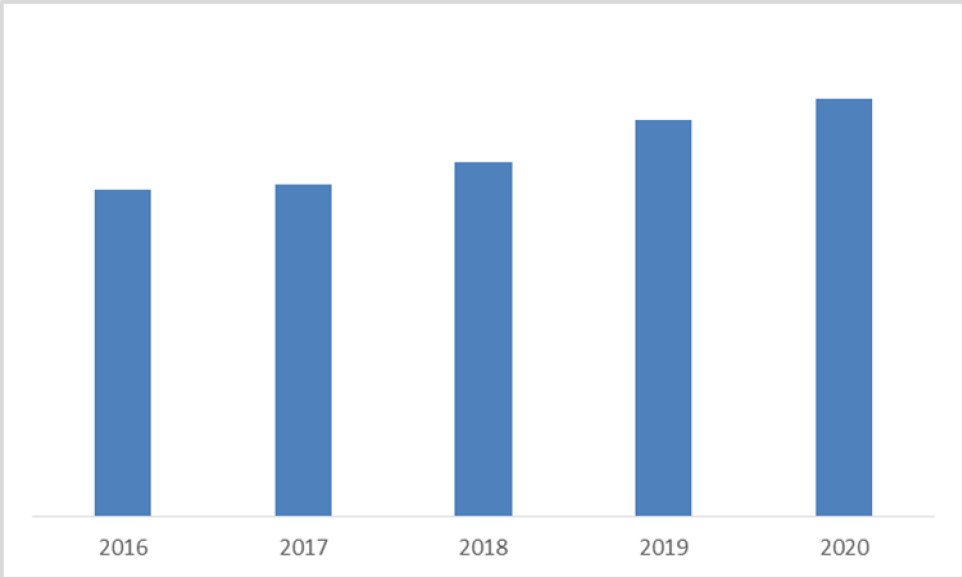

Figure 1 - Sales volume, tonnes, FY

Orica has seen an ongoing improvement in its sales volumes during the period commencing 1 July 2015.

8.3.2 Market share

Figure 2 below details the shares of the Australian ammonium nitrate market.

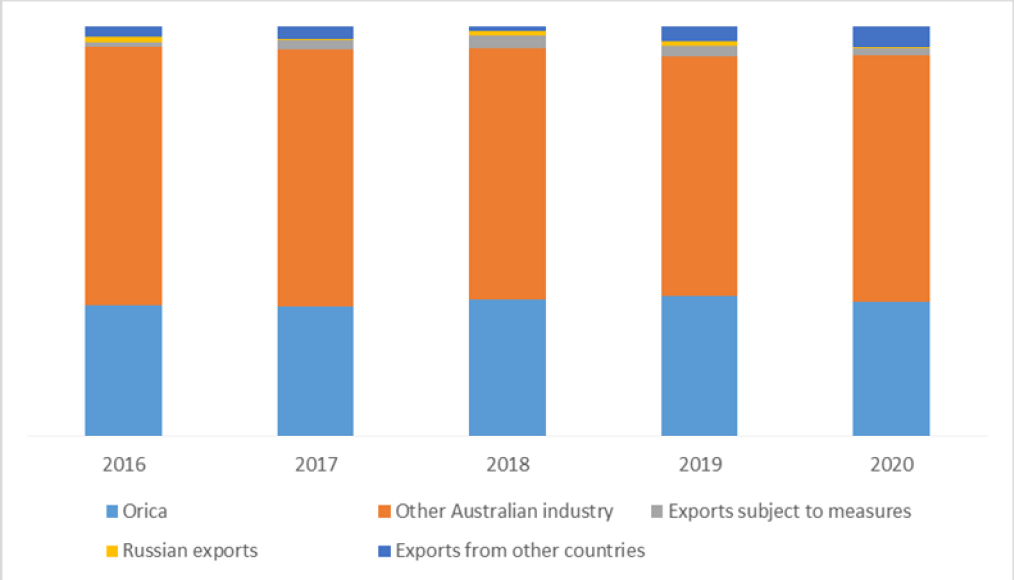

Figure 2 – Market shares, FY

Orica's share of the market has remained fairly stable over the period, increasing marginally between FY 2016 and FY 2020.

8.4 Price effects

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

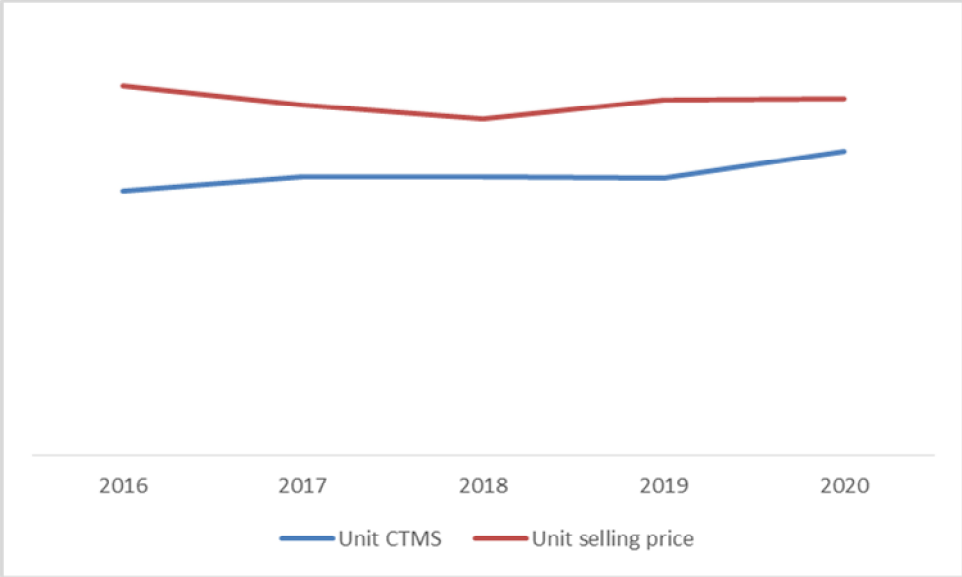

Figure 2 - Unit selling price and unit CTMS, FY

While the unit selling price has been consistently above the unit CTMS, there has been some narrowing of the margin in FY2018 and again in FY2020.

The unit selling price is relatively flat in the period, however, between FY2016 and FY2018, Orica experienced a reduction in its unit selling price.

8.5 Profit and profitability

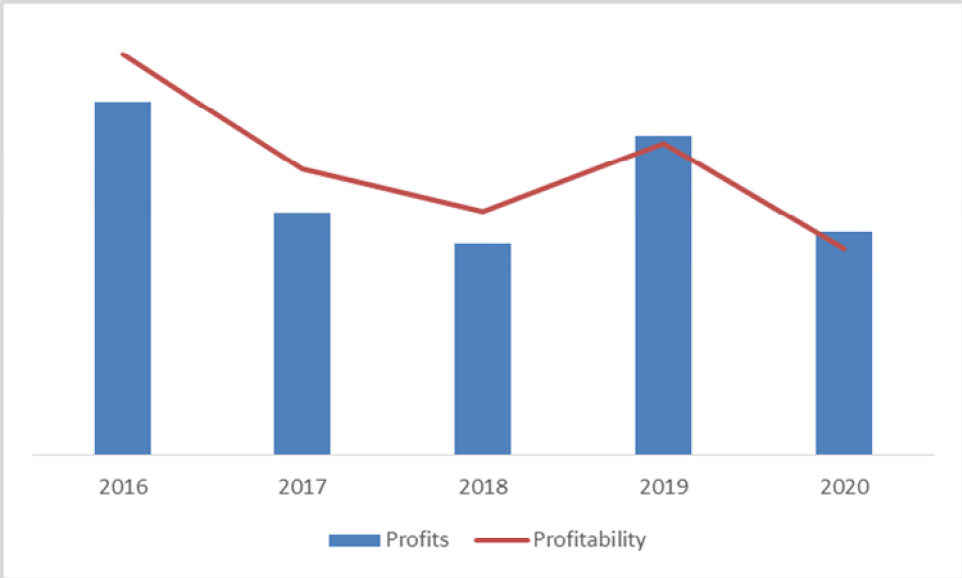

Figure 2 - Profits and profitability, FY

Both profits and profitability have decreased between 2016 and 2018. There is some recovery in 2019, followed by a decline again in the inquiry period.

8.6 Other economic factors

Orica provided data related to several economic factors together with the application.

Since 2015, Orica has experienced a general improvement in R&D expense, capacity utilisation, productivity and receivables turnover. Assets, revenue, production, and both wages and average wages have increased after an initial reduction during the period. Orica has experienced reduced capital investment, return on investment (ROI) and employment numbers in the period. Reduced ROI is a reflection of the reduced profits in the period.

9 IMPACT OF EXPIRY OF MEASURES

9.1 Background and approach to analysis

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

- dumping and/or subsidisation; and
- the 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 Orica'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 Continuation or recurrence of dumping and material injury

9.2.1 Contracts and Import pricing

Orica discussed upcoming tenders and how it arrives at its pricing. Orica explained that it's model is based on the customer's next best alternative source of supply. It will also work out a price internally based on:

- Analysis of import data (ABS)
- Its own competitor intelligence

- Freight costs

Orica provided a list of contracts that will be re-negotiated in the next five years.

Orica advised the Commission that in some of its significant supply agreements, the import price is a measure used to adjust the prices paid by the customer. The verification team requested copies of these contracts and will assess the link between import prices and supply agreements during the course of the inquiry.

9.2.2 Country-hopping

Orica observed that following the imposition of measures on Sweden, Thailand and China, exports from these countries had reduced and exports from other countries appear to have taken their place. Orica submitted that this is an indication that upon the expiry of measures from Russia, that it is likely that importers will then commence sourcing from Russia.

The potential for substitution of supply sources will be analysed in further detail during the course of this continuation inquiry.

9.2.3 Substitutability of HDAN and LDAN

During the verification, Orica discussed the substitutability of HDAN and LDAN. Orica claimed that while Russia did not have significant excess capacity in LDAN at the moment, (it understands that there are plans in place to build new production), it is able to still export large quantities of HDAN. HDAN is usually dissolved to make emulsion. Orica explained that most emulsion in Australia is made from ammonium nitrate solution (AnSol). Orica itself has several products that use various combinations of ammonium nitrate and emulsion. Orica claimed that AnSol is better than HDAN as it is already dissolved, whereas HDAN must be dissolved. A solution tank would be required for this process.

The verification team asked about the cost comparison between the purchase of HDAN that would need to be dissolved and purchasing AnSol which is already dissolved. Orica advised that AnSol could be more expensive to store.

9.2.4 Injury caused by factors other than dumping

The verification team inquired about other factors that may injure Australian industry on an ongoing basis.

9.2.4.1 Domestic capacity

Orica advised that its domestic plants are either at capacity or close to full capacity. The Burrup joint venture plant is also close to capacity.

The verification team asked about the vulnerability of Orica's operations to Russian imports. Orica advised that it is more likely to be affected in the east coast as there are more competitors in this region. It mentioned several explosives manufacturers and customers that may purchase Russian imports.

9.2.4.2 Supply by other countries

Orica advised the verification team that it is aware of other countries that have entered the market and are supplying a growing proportion of ammonium nitrate to the domestic market. It claimed, however, that this is an indication of the ease with which importers may switch supplier countries, which supports its claim that in the absence of measures, Russian exports may increase.

The verification team inquired concerning the ease of switching suppliers at a mine site. Orica advised that this depends on the site. If it is a complex mine site there is a disincentive to change suppliers. If it is a standard mine site, then price is more likely to be a factor.

The ability to easily switch suppliers will be assessed further during the course of the investigation.

9.2.4.3 Gas costs

Orica advised that, like most manufacturing concerns, it has experienced an increase in gas prices which has affected its cost to make. However, it claimed that the existence of imports at dumped prices in the market impacts its ability to pass on higher manufacturing costs to customers, thereby affecting its profit margin.

9.2.4.4 Reduced demand for coal

Orica claimed that there have been some recent reductions in customer demand as their coal mining operations have been impacted by reduced demand from China. Orica provided examples of reductions in orders by coal mining customers.

10 APPENDICES AND ATTACHMENTS

Confidential Attachment 1	Verification work program
Confidential Appendix 1	Economic Performance of Orica Australia