



Exporter 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		
Exporter	JSC Novomoskovsky Azot		
Location	Remote verification		
Verification from	9/11/2020	to	15/02/2021
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

CONTENTS

PREFACE	3
1 COMPANY BACKGROUND.....	4
1.1 CORPORATE STRUCTURE AND OWNERSHIP	4
1.2 RELATED PARTIES	4
1.3 ACCOUNTING RECORDS	5
2 THE GOODS AND LIKE GOODS	6
2.1 PRODUCTION PROCESS	6
2.2 MODEL CONTROL CODES (MCCS).....	6
2.3 VERIFICATION OF MCCS	7
2.4 THE GOODS EXPORTED TO AUSTRALIA	7
2.5 LIKE GOODS SOLD ON THE DOMESTIC MARKET	7
2.6 LIKE GOODS – ASSESSMENT	8
3 VERIFICATION OF SALES COMPLETENESS AND RELEVANCE.....	9
3.1 EXCEPTIONS DURING VERIFICATION OF SALES COMPLETENESS AND RELEVANCE	9
3.2 SALES COMPLETENESS AND RELEVANCE FINDING	10
4 VERIFICATION OF SALES ACCURACY.....	11
4.1 SALES ACCURACY FINDING	11
5 VERIFICATION OF COST TO MAKE AND SELL (CTMS) COMPLETENESS AND RELEVANCE	12
5.1 EXCEPTIONS DURING VERIFICATION OF COMPLETENESS AND RELEVANCE OF CTMS DATA	13
5.2 COMPLETENESS AND RELEVANCE FINDING OF CTMS DATA	13
6 VERIFICATION OF COST TO MAKE AND SELL (CTMS) ACCURACY	14
6.1 COST ALLOCATION METHOD.....	14
6.2 VERIFICATION OF ACCURACY OF CTMS DATA.....	14
6.3 RELATED PARTY SUPPLIERS	14
6.4 ACCURACY FINDING	15
7 EXPORT PRICE.....	16
8 DOMESTIC SALES	17
8.1 ARMS LENGTH	17
8.2 ORDINARY COURSE OF TRADE.....	17
8.3 VOLUME OF RELEVANT SALES	17
9 ADJUSTMENTS.....	19
9.1 RATIONALE AND METHOD	19
9.2 ADJUSTMENTS	20
10 NORMAL VALUE	21
11 DUMPING MARGIN.....	22
12 APPENDICES AND ATTACHMENTS	23

PREFACE

This report details the findings, analysis, evidence relied upon and reasoning on key verification outcomes of data submitted 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 section 269SMG and 269SMR of the *Customs Act 1901* (the Act).¹

¹ References to any section in this report relate to provisions of the Act, unless specifically stated otherwise.

1 COMPANY BACKGROUND

1.1 Corporate structure and ownership

JSC Novomoskovsky Azot (NAK Azot) is a privately owned manufacturing enterprise incorporated in Russia. NAK Azot is an indirect subsidiary of EuroChem Group AG and a member of the EuroChem Group of companies. The EuroChem Group of companies are owned by a private trust.

NAK Azot produces and sells ammonia, carbamide (urea), methanol, ammonium nitrate, nitrogen and various nitrogen fertilizers. During the inquiry period, NAK Azot sold ammonium nitrate in the domestic market and to other countries but did not export the goods to Australia.

On the domestic market, NAK Azot sold to related parties including:

- a trading company; and
- a manufacturer.

On the export market, NAK Azot sold to related and unrelated parties including:

- related trading companies which sell to more than 100 countries;
- a subsidiary which resells the goods to another country;
- a related manufacturer; and
- an unrelated customer.

1.2 Related parties

The verification team examined the relationships between NAK Azot and parties involved in the manufacture and sale of the goods.

1.2.1 Related suppliers

The verification team identified that the company acquired electricity used for the production of ammonium nitrate from a related party. The verification team conducted tests to assess the arm's length nature of these transactions. This verification is further discussed in Chapter 6 of this report.

1.2.2 Related customers

The verification team considers the trading companies, to which the goods are sold, to be related customers. Domestic and export sales to the trading companies represented the vast majority of sales in the inquiry period. These trading companies provide sales services and act as intermediaries between NAK Azot and the end customer in the domestic and export markets.

The verification team also considers the manufacturers to be related customers. Domestic and export sales to the related manufacturers accounted for a minimal share of sales in the inquiry period.

This verification is further discussed in Chapter 4 of this report.

1.3 Accounting records

NAK Azot's audited financial statement was audited by FBK Grant Thornton and includes a statement that the financial accounts are kept in accordance with the rules of preparing accounting statements established in the Russian Federation. Therefore, the verification team considers that the accounting records held by the company are in accordance with the generally accepted accounting principles of Russia.

2 THE GOODS AND LIKE GOODS

2.1 Production process

NAK Azot is an integrated manufacturer of ammonium nitrate. A summary of the production process is as follows:

- *Preparation:* The first stage of production involves the preparation of raw materials including ammonia, nitric acid, anticaking agents and internal additives.
- *Ammonia:* Natural gas is reacted with steam and then air to produce hydrogen, nitrogen and carbon dioxide. The carbon dioxide is removed and the hydrogen is reacted with nitrogen to produce ammonia.
- *Ammonia to nitric acid:* Nitric acid is produced by reacting ammonia with oxygen in the presence of a catalyst. The reaction produces nitric oxides, which are then dissolved in water to produce nitric acid.
- *Ammonia and nitric acid to ammonium nitrate:* Water solutions of ammonium nitrate are produced by neutralising nitric acid with gaseous ammonia under pressure. The solution is evaporated and additives are added to produce a highly concentrated melt solution. This solution is then solidified by either prilling or granulating.
- *Convert liquid to solid form:* The solution is prilled by straying the solution into the top of a prilling tower where a rising air stream cools and solidifies the falling droplets into spherical balls or prills. The ammonium nitrate solution is made into granules in granule towers where the granules are cooled in fluid beds. The finished goods are dried, classified and cooled. Surface additives (anticaking agents) are added.
- *Packaging and despatch:* High density ammonium nitrate (HDAN) and low density ammonium nitrate (LDAN) is packaged into bags of various sizes or sold without packaging (bulk) and poured into silo trucks. The goods are then transferred to the warehouse or onto trucks and railcars for despatch.

There are no significant differences in the production process between the goods and like goods.

2.2 Model Control Codes (MCCs)

NAK Azot provided sales and cost data in its response to the exporter questionnaire (REQ) in accordance with the model control code (MCC) structure detailed in Anti-Dumping Notice (ADN) No. 2020/093.

NAK Azot did not propose changes to the MCC structure for ammonium nitrate and did not provide optional categories. NAK Azot provided all mandatory sales data.

2.2.1 Amendments to MCCs

Based on analysis of the price comparability of the goods under consideration, the verification team considers it is not necessary to make amendments to the MCC structure. The verification team also notes that no submissions were made to amend the MCC structure.

2.3 Verification of MCCs

Table 1 below provides detail on how the MCC sub-categories were determined and verified to source documents.

Category	Determination of the sub-category
Density	Based on the description and product code on the invoice, addendums to contracts, quality certificate and delivery note. Table 2 shows how the standard is mapped to density.
Form	Based on the shop from which the product was produced.

Table 1 MCC sub-category determination

Table 2 below displays the relationship between the standard and MCC density categories.

Standard	MCC density category
International Standard GOST 2-2013	High
TU 2143-073-05761643-2013	Low

Table 2 MCC mapping

2.4 The goods exported to Australia

The verification team was satisfied that NAK Azot did not export the goods to Australia during the inquiry period.

2.5 Like goods sold on the domestic market

The verification team was satisfied that NAK Azot sold like goods in the domestic market.

The verification team considers that the goods manufactured for domestic consumption are identical to, or have characteristics closely resembling, the goods subject to measures, as they:

- **Physical likeness** – are not distinguished from the goods subject to measures during production. The goods subject to measures and the goods sold on the domestic market are produced in the same way, subject to individual customer specifications, and the costs of production for models sold domestically and for export are the same;
- **Production likeness** – are produced at the same facilities, using the same raw material inputs and manufacturing processes;
- **Commercial likeness** – the goods compete in the similar market sectors, are interchangeable and use similar distribution channels; and
- **Functional likeness** – can be considered functionally alike, as they have similar end uses.

PUBLIC RECORD

NAK Azot sold like goods on the domestic market with the following MCCs during the period:

- H-G
- H-P
- L-P

2.6 Like goods – assessment

The verification team considers that the goods produced by NAK Azot for domestic sale have characteristics closely resembling those of the goods subject to measures in Australia and are therefore 'like goods' in accordance with section 269T(1) of the Act.

3 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 export and domestic sales listings provided in the Response to the REQ 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 value of total sales from the income statement in the audited financial statement to total amount of the sales ledgers.
- The verification team reconciled the total company revenue in the income statement to the total company revenue over the inquiry period.
- The verification team reconciled the value and volume of all ammonium nitrate products (HDAN, LDAN and scrap) including sales of the goods to the company's sales ledgers.
- The verification team reconciled the value and volume of the goods to the domestic and export sales listings.

The verification team identified the issue 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**.

3.1 Exceptions during verification of sales completeness and relevance

No.	Exception	Resolution
1	During the upwards verification process, the verification team observed that NAK Azot's accounting system recorded sales to certain countries as domestic sales rather than export sales. This meant that the domestic sales listing and the third country sales listings were incorrect.	NAK Azot provided a revised domestic sales listing and a revised third country sales listing resolving the issue.
2	During the upwards verification process, the verification team observed that the value and volume	NAK Azot provided a revised third country sales listing resolving the issue.

PUBLIC RECORD

	of sales reported for third country sales in the third country sales listing (F-2) and in the upwards sales reconciliation (B-4) did not match.	
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Table 3 Exceptions during verification of completeness and relevance of sales data

3.2 Sales completeness and relevance finding

The verification team is satisfied that the sales data provided by NAK Azot, including the required amendment outlined in the exception table above, is complete and relevant.

4 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 export and domestic sales listings submitted in the REQ by reconciling these to source documents in accordance with ADN No. 2016/30.

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

Exception	Resolution
During the downward verification of sales process, the verification team observed that expenses recorded as handling, technical support and other direct selling expenses were all related to the delivery of the goods and should be classified as delivery expenses.	NAK Azot provided a revised domestic sales listing with certain expenses reclassified as delivery expenses.

Table 4 Exceptions during verification of accuracy of sales data

4.1 Sales accuracy finding

The verification team is satisfied that the sales data provided by NAK Azot, including the required amendment outlined in the exception table above is accurate.

5 VERIFICATION OF COST TO MAKE AND SELL (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:

- The total cost of goods sold (COGS) was reconciled from the income statement within the 2019 audited financial statements to the financial system's general ledger.
- A timing adjustment was required to be made to the COGS given that the accounting period and the review period are not the same. The verification team reconciled to trial balances these adjustments.
- COGS for the product were identified from the accounting system.
- Several cost adjustments were made to convert the COGS of the product to cost of production, including change in finished goods inventory.
- Based on shop reports available on NAK Azot's accounting system, the cost of production and production quantities for the goods under consideration were identified, and subsequently, the amounts relating to the domestic, and third country markets were identified.
- The cost of production and production quantities for domestic and export markets were reconciled to the CTMS information.

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

- The total SG&A from income statement within the 2019 audited financial statements was reconciled to the financial system's general ledger.
- A timing adjustment was required to be made to the SG&A given that the accounting period and the review period are not the same. The verification team reconciled to trial balances these adjustments.
- The total SG&A from the financial system's general ledger was reconciled to the total SG&A set out in the CTMS information.

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 completeness and relevance of CTMS data

No.	Exception	Resolution
1	During the upwards verification process, the verification team observed that NAK Azot failed to include certain workshop costs in its CTM. This meant that the CTM was under reporting total CTM.	NAK Azot provided a revised CTM including these costs.
2	During the upwards verification process, the verification team observed that NAK Azot failed to include general factory costs, commercial expenses, repairs and general production costs to its CTM. This meant that the CTM was under reporting total CTM.	NAK Azot provided a revised CTM including these costs.

Table 5 Exceptions during verification of completeness and relevance of CTMS data

On 22 February 2021, the company presented a revision to its cost information regarding model H-G, which excluded certain costs. This change was not requested by the verification team. Given the lateness of this revision to the cost data, the verification team does not have sufficient time to properly assess the reasonableness of the revision, as doing so would prevent the timely placement of the statement of essential facts on the public record. Accordingly, the verification team has not taken this revision into account. This request will be considered further by the case management team.

Accordingly, the verification team did not take this revision into account.

5.2 Completeness and relevance finding of CTMS data

The verification team is satisfied that the CTMS data provided in the REQ by NAK Azot, including any required amendments as outlined as an exception above, is complete and relevant.

6 VERIFICATION OF COST TO MAKE AND SELL (CTMS) ACCURACY
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6.1 Cost allocation method

The verification team verified the reasonableness of the method used to allocate the cost information provided in the REQ to the relevant MCCs, 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 6 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.
Scrap Allocation	No scrap offset was applied to the CTMS information.
Manufacturing Overheads	Manufacturing overheads costs were allocated on the basis of production quantity for the finished goods.
Labour	Direct 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.
Variance	All costs were actual costs.

Table 6 Cost allocation method

6.2 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 provided in the REQ 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**.

6.3 Related party suppliers

NAK Azot purchased electricity from a related party during the inquiry period.

The verification team was provided with evidence that the related entity sold electricity to NAK Azot at a premium.

PUBLIC RECORD

The verification team considers that NAK Azot's purchases of electricity from a related supplier reflect arms length transactions.

6.4 Accuracy finding

The verification team is satisfied that the CTMS data provided in the REQ by NAK Azot is accurate and reasonably reflect the costs associated with the production and sale of the goods under consideration.

7 EXPORT PRICE

The verification team found that there is an absence of exports to Australia during the review period.

8 DOMESTIC SALES

Section 269TAC(1) provides the general rule for calculating normal value. For sales to be relevant for the purpose of section 269TAC(1), they must be sales of like goods sold in the exporter's domestic market for home consumption that are at arms length and in the ordinary course of trade (OCOT).

8.1 Arms length

8.1.1 Related party customers

In respect of NAK Azot's domestic sales of like goods to its related customer during the period, the verification team found no evidence that:

- there was any consideration payable for, or in respect of, the goods other than its price; or
- the price appeared to be influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly reimbursed, compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.²

The verification team therefore considers that all domestic sales made by NAK Azot to its related customer during the period were arms length transactions.

The verification team made a selection of transactions made by the related customer for which it identified profitability. The transactions were also verified for accuracy by evaluating source documents.

8.2 Ordinary course of trade

The verification team have collected the necessary data to conduct an OCOT assessment, based on the reported costs and sales at the time of verification. The application has claimed that NAK Azot's records do not reasonably reflect competitive market costs associated with the production or manufacture of like goods. The Commission is currently considering this claim. Therefore, the assessment of whether domestic sales are in the OCOT has been referred to the case management team for consideration.

8.3 Volume of relevant sales

The verification team have collected the necessary data to conduct a volume analysis, based on the reported costs and sales at the time of verification. The application has claimed that the market in the country of export is such that sales in that market are not suitable for use in determining a normal value under section 269TAC(1) (section 269TAC(2)(a)(ii)). The application has also claimed that NAK

² Section 269TAA of the Act refers.

PUBLIC RECORD

Azot's records do not reasonably reflect competitive market costs associated with the production or manufacture of like goods.

The Commission is currently considering these claims. Therefore, the verification team has referred consideration of the volume of relevant sales to the case management team.

9 ADJUSTMENTS

The verification team has considered the following adjustments in accordance with section 269TAC(9).

9.1 Rationale and method

Adjustment type	Assessment for adjustment	Calculation method and evidence	Claimed in REQ?	Adjustment required?
Domestic credit terms	<p>NAK Azot offered credit terms for domestic customers under conditions relevant to domestic sources of credit.</p> <p>The verification team considered if a credit adjustment was necessary.</p> <p>While the verification team observed that credit term used for third country sales were different in many instances to those used for domestic sales, third country sales were not regarded for the purposes of establishing a normal value.</p> <p>The verification team considers therefore that there is no information on credit terms to Australia.</p>	NAK Azot provided evidence to substantiate credit rate adjustments after a request from the verification team.	No	No
Domestic inland transport	<p>NAK Azot incurred inland transport expenses for domestic sales sold on CPT and EXW terms.</p> <p>The verification team identified that a number of expenses were also driven by the delivery of goods and these have</p>	Inland transport costs were identified for the like goods and allocated based on production levels.	Yes	Yes

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	been allocated to transportation costs.			
Domestic packaging	The verification team observed that there is no difference in packaging costs for third country sales and domestic sales.	Evidence on how packaging costs were allocated to the like goods was gathered by the verification team, identifying that there are no differences on the type of packaging used between domestic and export sales.	No	No

Table 7 Assessment of adjustments

9.2 Adjustments

The verification team considers the following adjustments under section 269TAC(8) are necessary to ensure that the normal value so ascertained is properly compared with the export price of those goods.

Adjustment Type	Deduction/addition
Domestic inland transport	Deduct an amount for domestic inland transport

Table 8 Summary of adjustments

10 NORMAL VALUE

As stated in chapter 8, the application has claimed that the situation in the market in the country of export is such that sales in that market are not suitable for use in determining a normal value under section 269TAC(1) (section 269TAC(2)(a)(ii)). Where section 269TAC(2)(a)(ii) is satisfied, normal value may be constructed under section 269TAC(2)(c).

The verification team has not considered whether section 269TAC(2)(a)(ii) is satisfied. Therefore, the verification team has not calculated a normal value and has referred the calculation of the normal value to the case management team.

The verification team recommends that, in the event the normal value is determined under section 269TAC(2)(c), certain adjustments in accordance with section 269TAC(9) are necessary to ensure that normal values are properly comparable with export prices as outlined in chapter 0 above.

11 DUMPING MARGIN

Normal values were not determined as part of the verification process (see chapter 10 of this report). The verification team also notes that NAK Azot has not exported the goods to Australia.

12 APPENDICES AND ATTACHMENTS

Confidential Appendix 2	Cost to make and sell
Confidential Attachment 1	Verification work program