AGRICHEM MANUFACTURING INDUSTRIES PTY LTD T/A AGRONOMIQ

PRESENTATION TO

AUSTRALIAN CUSTOMS AND BORDER PROTECTION SERVICE

WEDNESDAY 22ND FEBRUARY 2012

BACKGROUND

- **NATIONAL DISTRIBUTORS (AIRR, LANDMARK, ELDERS, CRT AND IHD) CONTROL THE AGRICULTURAL CHEMICAL MARKET IN AUSTRALIA.**
- **AGRONOMIQ IMPORTS AGRICULTURAL CHEMICALS EXCLUSIVELY FOR AIRR, A MAJOR NATIONAL DISTRIBUTOR WHICH SUPPLIES 240 OF ITS OWN RURAL STORES AND WHOLESALES TO ANOTHER 1,060 INDEPENDENTLY-OWNED RURAL STORES.**
- **THESE 1,300 RURAL STORES SELL TO 48,000+ OF AUSTRALIA'S 132,000 FARMERS.**
- **AIRR, TOGETHER WITH LANDMARK AND ELDERS, IMPORT GENERIC AGRICULTURAL CHEMICALS DIRECT FROM CHINA AND INDIA TO DELIVER A LOWER PRICE TO FARMERS.**
- **SHORTENING THE SUPPLY CHAIN HAS PLACED CONSIDERABLE PRESSURE ON NUFARM AND OTHER PARTICIPANTS IN THE AUSTRALIAN GENERIC MARKET.**

- **NOTWITHSTANDING THE STRATEGY OF DIRECT IMPORTS, AIRR, LANDMARK AND ELDERS STORES STOCK MULTIPLE BRANDS OF THE SAME PRODUCT TO GIVE A CHOICE TO FARMERS.**

AGRONOMIQ AND GLYPHOSATE

- IN F/Y 2010/11, AGRONOMIQ IMPORTED 4,328,000 LITRES OF FF GLYPHOSATE 450 FOR AIRR VALUED AT US$10,599,180.
- IN CALENDAR YEAR 2011, AGRONOMIQ IMPORTED 7,037,520 LITRES OF FF GLYPHOSATE FOR AIRR VALUED AT US$18,078,646.
- YTD (F/Y 2011/12), AGRONOMIQ HAS ORDERED/IMPORTED 7,440,320 LITRES OF FF GLYPHOSATE FOR AIRR VALUED AT US$19,597,958. FORECAST: 8,000,000 LITRES.
- BY 2014/15 IMPORTS AND LOCAL FORMULATION ARE FORECAST AT 15,000,000 LITRES OF GLYPHOSATE 450 <u>EQUIVALENT</u> VALUED AT US$45,000,000.
- AGRONOMIQ/AIRR HAS ADOPTED A DIFFERENTIATED GLYPHOSATE PRODUCT STRATEGY WHICH IS DIFFICULT TO MANAGE BY IMPORTING FF PRODUCTS ALONE.
- THEREFORE, WE HAVE APPLIED FOR A TCO TO IMPORT PARTIALLY-FORMULATED GLYPHOSATE 62% W/W DUTY FREE. THIS PRODUCT CAN BE FORMULATED AT SHORT NOTICE INTO ANY ONE OF OUR FIVE FF GLYPHOSATE PRODUCTS.

IS FF GLYPHOSATE IMPORTED FROM CHINA DUMPED IN AUSTRALIA?

- BASED ON THE AVAILABLE EVIDENCE THE ANSWER IS "NO". WE SUBMIT THAT FINANCIAL LOSSES ON LOCAL FORMULATION ARE CAUSED BY OTHER FACTORS DISCUSSED BELOW.
- BEFORE CONTRACTING A NEW SUPPLIER FOR ALL PRODUCTS, AGRONOMIQ ASSESSES THE FINANCIAL POSITION OF THE COMPANY.
- IN THE CASE OF GLYPHOSATE WE SOURCE EXCLUSIVELY FROM JIANGSU GOOD HARVEST-WEIEN ("GOOD HARVEST") WHICH IS A PROFITABLE PRIVATE COMPANY WHERE THERE IS NO EVIDENCE OF DUMPING.
- HOWEVER, IT WAS FINANCIAL DATA FROM GOOD HARVEST THAT RESULTED IN REMOVAL OF THE ANTI-DUMPING DUTY FROM CHINESE GLYPHOSATE IMPORTS INTO THE EU IN 2010.
- WHAT ABOUT THE REMAINING PRODUCERS?
- THERE ARE NOW ONLY 12 PERMANENT PRODUCERS OF GLYPHOSATE IN CHINA AND, TO THE BEST OF OUR KNOWLEDGE, ALL ARE FINANCIALLY VIABLE AND DO

NOT ENGAGE IN DUMPING. THE INDUSTRY HAS BEEN RATIONALISED SINCE 2008 WITH SMALL-SCALE PRODUCERS EXITING AND LARGER PRODUCERS ACHIEVING ECONOMIES OF SCALE.

- TO THE BEST OF OUR KNOWLEDGE, THERE IS NO TRANSFER PRICING FROM THE PRODUCTION OF GLYPHOSATE TECHNICAL TO THE FORMULATION FUNCTION OR VICE VERSA.
- TYPICAL (UNRELATED TO ANY COMPANY) CHINESE COST PER LITRE OF FF GLYPHOSATE 450 SHOWN IN CHART NO. 1 CONFIRMS NO DUMPING.
- NOTE THAT CHART ASSUMES GLYPHOSATE TECHNICAL RATHER THAN WET-CAKE IS FORMULATED, THEREFORE THE CHART DEPICTS LOWER INCOME THAN ACTUAL.
- THERE IS ONE SCHOOL OF THOUGHT THAT SUGGESTS DUMPING IS SELLING IMPORTED PRODUCT IN AN EXPORT MARKET BELOW THE PRICE IT IS SOLD IN THE DOMESTIC MARKET.
- GLYPHOSATE 360 IS THE PRODUCT OF CHOICE IN CHINA WHEREAS GLYPHOSATE 450 IS THE PRODUCT OF CHOICE IN AUSTRALIA.

CHART 1 : COST OF TYPICAL CHINESE FORMULATION OF GLYPHOSATE 450

Cost of Chinese Glyphosate AUD	Pricing kg/L	Income
Cost of Glyphosate Technical 97%	3.05	
Sales Price of Glyphosate Technical	3.57	0.52
Cost of Glyphosate used in Glyphosate 450	1.65	
IBC	0.14	
MIPA (170 gram)	0.20	
Wetter (120 gram): Average Cost	0.28	
Labour & Overheads	0.05	
Label & Leaflet & Other Chemicals.	0.01	
Financing (7% p.a. Three Months)	0.05	
TOTAL	2.38	
Sales Price (FOB Shanghai)	2.55	0.17

IF DUMPING DOES NOT EXIST, WHAT ARE THE FACTORS CAUSING FINANCIAL DISADVANTAGE TO LOCAL FORMULATORS? (NOT SHOWN IN ORDER OF IMPORTANCE)

1) **WET-CAKE**

- GLYPHOSATE MANUFACTURERS WHO FORMULATE END-USER PRODUCTS USE WET-CAKE, THAT IS, GLYPHOSATE TECHNICAL BEFORE IT IS DRIED. WET-CAKE CANNOT BE EXPORTED.
- PROVIDES CHINESE FORMULATORS WITH A COMPETITIVE ADVANTAGE.
- LOCAL MANUFACTURERS MUST IMPORT GLYPHOSATE TECHNICAL FOR FORMULATION AND THEREFORE PAY A PENALTY OF AROUND 4 CENTS/LITRE.

2) **IBCs**

- APPROXIMATELY 70% OF GLYPHOSATE SOLD IN AUSTRALIA IS PACKED IN SCHUTZ 1,000-L INTERMEDIATE BULK CONTAINERS (IBCs), OFTEN DESCRIBED AS "SHUTTLES".

- SCHUTZ SELLS IBCs IN CHINA FOR US$125 EACH WHEREAS IN AUSTRALIA SCHUTZ SELLS AN IDENTICAL PRODUCT FOR AUD200-220 EACH, THEREBY ADDING 8 CENTS/LITRE TO THE COST OF LOCAL FORMULATION.
- SCHUTZ RECYCLES CHINESE-MANUFACTURED IBCs IN AUSTRALIA, BUT A SECOND-HAND MARKET HAS ALSO EMERGED RESULTING IN IBCs SELLING FOR AROUND AUD120 EACH.
- SECOND-HAND IBCs SIGNIFCANTLY REDUCE THE PRICE DISPARITY, BUT ARE LESS MARKETABLE.

3) <u>EXCHANGE RATE</u>

- GLYPHOSATE IS PRICED IN US$
- SINCE JANUARY 2010, THE AUD HAS INCREASED IN VALUE AGAINST THE US$ BY 39%.
- INCREASE IN VALUE OF THE AUD AGAINST US$ HAS PLACED AUSTRALIAN FORMULATORS AT A DISADVANTAGE AGAINST IMPORTERS OF FF GLYPHOSATE FOR THE LOCAL COMPONENT.

4) TAX REBATE

- GLYPHOSATE TECHNICAL MANUFACTURERS RECEIVED A TAX REBATE ON REVENUE FROM EXPORTS OF THE PRODUCT.
- THE REBATE WAS FACTORED INTO THE PRICE OF GLYPHOSATE TECHNICAL.
- THIS CONCESSION WAS NOT GIVEN TO THE EXPORT OF FORMULATED PRODUCT, THUS THERE WAS DISPARITY IN THE PRICING WHICH FAVOURED TECHNICAL PRODUCT AND THEREFORE FORMULATORS IN AUSTRALIA.
- THE TAX REBATE WAS REDUCED BY 5% IN JULY 2010.

5) ECONOMIES OF SCALE

- RATIONALISATION OF THE INDUSTRY POST-2008 HAS RESULTED IN CAPACITY GROWTH AND CONSEQUENTLY ECONOMIES OF SCALE.
- ECONOMIES OF SCALE (LOWER COSTS) HAVE RESULTED IN LOWER PRICES IN REAL TERMS.

6) WETTER ISSUE

- GLYPHOSATE 450 REQUIRES 120 GM/L OF WETTER TO FUNCTION EFFICIENTLY.
- AGRONOMIQ/AIRR'S PREMIUM GLYPHOSATE CONTAINS HUNTSMAN TERWET 3780 TALLOW AMINE WETTER, PRODUCED IN SYDNEY AND EXPORTED TO CHINA.
- NUFARM/MONSANTO'S ROUNDUP USES THE SAME WETTER AND SO TOO DO SEVERAL OTHER PREMIUM PRODUCTS.
- HOWEVER, THERE ARE OTHER WETTERS ON THE MARKET SUCH AS APGs, BETAINEs AND CHINESE PRODUCED TALLOW AMINE. NONE ARE AS EFFICIENT AS TERWET 3780, BUT CAN BE UP TO 20 CENTS/LITRE LESS EXPENSIVE.
- CHINESE FORMULATORS WILL USE THE WETTER OF THE CUSTOMER'S CHOICE.
- SEVERAL IMPORTERS ARE USING LESS EXPENSIVE WETTERS OR EVEN DILUTED TERWET 3780, BUT CLAIMING THEIR GLYPHOSATE 450 CONTAINS 120 GM/L OF TERWET 3780.

- IF CHEATING ON WETTERS IN IMPORTED GLYPHOSATE CEASED, LOCAL FORMULATORS WOULD BE ABLE TO COMPETE AGAINST IMPORTED FF GLYPHOSATE FROM CHINA.
- THIS IS AN APVMA ISSUE.
- TO COMBAT CHEATING ON WETTERS, AGRONOMIQ/AIRR HAS INTRODUCED A NEW PRODUCT WHICH IS PRICE 18 CENTS/LITRE BELOW OUR PREMIUM PRODUCT. HOWEVER, IT IS NOT POSITIONED AS A PREMIUM PRODUCT AND DIRECTED TOWARDS FARMERS WHO TRADITIONALLY USE TANK-ADDED WETTERS.

7) MIPA

- MONOISOPROPYLAMINE (MIPA) IS USED TO FORMULATE GLYPHOSATE IPA SALT AND IS IMPORTED INTO AUSTRALIA FROM CHINA THIS PURPOSE.
- THE PRICE OF MIPA FLUCTUATES WITH THE PRICE OF OIL.

- MIPA IS EXTREMELY DANGEROUS (BP = 32°C) AND ITS SHIPPING COST TO AUSTRALIA ADDS AROUND 4 CENTS/LITRE TO THE COST OF FORMULATING GLYPHOSATE 450 IN AUSTRALIA.
- RISK CAN BE REDUCED BY IMPORTING MIPA 70%, (BP = 42°C) BUT THIS ADDS TO PRODUCTION AND TRANSPORTATION COSTS.
- THIS PROBLEM WILL BE RESOLVED IF, AS EXPECTED, THE POTASSIUM SALT OF GLYPHOSATE REPLACES THE IPA SALT BECAUSE THE FORMER MAY BE FORMULATED FROM LOCALLY AVAILABLE POTASSIUM HYDROXIDE (CAUSTIC POTASH).

8) <u>CHINESE LABOUR COSTS</u>

- AS EVIDENCED BY A DECLINE IN MANUFACTURING IN VIRTUALLY ALL OTHER SECTORS IN AUSTRALIA AND MOST OTHER WESTERN COUNTRIES, CHINESE LABOUR COSTS ARE SIGNIFICANTLY LESS THAN THOSE OF THE FORMER.
- WHILE FORMULATION OF CHEMICALS IS GENERALLY CAPITAL INTENSIVE, IT NONETHELESS INCLUDES A LABOUR COMPONENT.

- THE AVERAGE WAGE OF PRODUCTION STAFF IN THE CHINESE AGRICULTURAL CHEMICAL INDUSTRY IS US$5,000 PER ANNUM.

9) <u>TARGET RATES OF RETURN AND EFFICIENCY</u>

- NUFARM'S AVERAGE GROSS MARGIN ON GLYPHOSATE IS 15% (SOURCE: ANNUAL REPORT). AGRONOMIQ'S GROSS MARGIN IS 5%.
- NUFARM REQUIRES A HIGHER GROSS MARGIN BECAUSE OF ENORMOUS OVERHEADS RESULTING FROM EXCESSIVE STAFF NUMBERS (3,100+ GLOBALLY AND REPUTEDLY 2,000 IN AUSTRALIA - SOURCE: ANNUAL REPORTS).
- NUFARM IS EFFECTIVELY ASKING CUSTOMS TO PERPETUATE ITS INEFFICIENCIES BY CREATING A TARIFF BARRIER BEHIND WHICH IT CAN INCREASE PRICES RATHER THAN REDUCE OPERATING COSTS.

GLYPHOSATE AMMONIUM SALT

- GRANULAR GLYPHOSATE AMMONIUM SALT, REFERRED TO AS A "DRY FLOWABLE" (IN FORMULATIONS RANGING FROM 680 G/KG [NUFARM] TO 888 G/KG [GOOD HARVEST]), IS LISTED AS A PRODUCT WHICH MAY CARRY AN ANTI-DUMPING DUTY.
- CHINESE GRANULAR GLYPHOSATE FORMULATIONS HAVE A HIGHER LOADING: GOOD HARVEST FORMULATES 777 G/KG AND 888 G/KG, SUPERCEDING THE 680 G/KG PRODUCT.
- FOR THE LATTER REASON ALONE THERE SHOULD BE NO ANTI-DUMPING DUTY ON THIS PRODUCT. THE PRODUCTS ARE VASTLY DIFFERENT.
- THERE IS LIMITED CAPACITY FOR PRODUCTION OF HIGH QUALITY GRANULAR AMMONIUM SALT IN AUSTRALIA – AROUND 100 MT PA.
- THIS CAPACITY IS CURRENTLY USED FOR OTHER DRY FLOWABLES BECAUSE A MARKET HAS NOT BEEN DEVELOPED FOR GLYPHOSATE AMMONIUM SALT (DESPITE

THE FACT THE PRODUCT HAS BEEN IN THE AUSTRALIAN MARKET FOR MORE THAN 10 YEARS).

- ONE REASON FOR THE LACK OF MARKET IS THE HIGH PRICE OF THE AMMONIUM SALT (US$4.65/KG FOR 716 G/KG COMPARED WITH US$2.80/L FOR GLYPHOSATE 450 IPA).
- THE PLANT WITH THE CAPACITY OF 100 MT PA CANNOT COMPETE AGAINST THE CHINESE PRICE AND FOCUSES ON OTHER, HIGH VALUE GRANULAR FORMULATIONS.
- CHINESE GRANULATION PLANTS HAVE THE BENEFIT OF ECONOMY OF SCALE AND ALSO USE WET-CAKE TO FORMULATE GLYPHOSATE AMMONIUM SALT.

GLYPHOSATE 62% W/W MANUFACTURING CONCENTRATE

- **NOT FF THEREFORE SHOULD NOT FALL UNDER THE INVESTIGATION, BUT AS CONTINGENCY AUSTRALIAN CUSTOMS SHOULD BE AWARE OF THE FOLLOWING:**
- **IMPORTED FROM CHINA BUT CARRIES A 5% IMPORT DUTY COMPARED WITH GLYPHOSATE TECHNICAL 95-97% WHICH ENTERS AUSTRALIA DUTY FREE.**
- **TRANSPORTED IN AN IBC WHICH GIVES THE AUSTRALIAN FORMULATOR A "FREE" IBC THAT DOES NOT REQUIRE RINSING.**
- **ELIMINATES THE NEED FOR MIPA BECAUSE AMINATION STEP IS ALREADY COMPLETE.**
- **REDUCES FORMULATION TIME FROM THREE DAYS TO FOUR HOURS BECAUSE OF COOLING.**
- **AUSTRALIAN FORMULATOR ADDS WETTER, DYE (TO DESIGNATE PRODUCT TYPE) AND ANTI-FOAM, THEN PACKS THE PRODUCT AND APPLIES A LABEL.**
- **IF THE NEED FOR AN ANTI-DUMPING DUTY ON FF GLYPHOSATE IS ESTABLISHED, THE COST WILL INEVITABLY BE PASSED TO AUSTRALIAN FARMERS. HOWEVER, IF**

GLYPHOSATE 62% ENTERED DUTY FREE, AUSTRALIAN FARMERS WOULD NOT BE PENALISED AND AUSTRALIAN COMPANIES WOULD FORMULATE VIRTUALLY ALL END-USER GLYPHOSATE PRODUCTS.

THE FOLLOWING CHARTS COMPARE IMPORTED FF PRODUCT WITH PRODUCT TOLL FORMULATED LOCALLY. ACTUAL QUOTATIONS HAVE BEEN USED.

- **CHART 2 SHOWS THE COST OF FORMULATING GLYPHOSATE 450 LOCALLY FROM GLYPHOSATE 62% W/W AND THE BENEFIT OF A "FREE" IBC.**
- **CHART 3 SHOWS THE COST OF FORMULATING GLYPHOSATE 450 LOCALLY FROM GLYPOSATE 97% TECHNICAL.**
- **IN BOTH CASES, THE COST OF IMPORTED FF GLYPHOSATE IS COMPARABLE TO LOCALLY-FORMULATED GLYPHOSATE 450 IN IBCS, THUS REPUDIATING THE CLAIM THAT NUFARM OR ACCENSI HAVE SUFFERED FINNACIAL DAMAGE BECAUSE OF LOW-COST IMPORTS.**

CHART 2: APPARENT TOLL FORMULATION CALCULATION MODEL

APPARENT Glyphosate 450 from 62%

		Formulator 1			Formulator 2		
COMPONENT	UNIT COST	PACK SIZE 20	PACK SIZE 110	PACK SIZE 1000	PACK SIZE 20	PACK SIZE 110	PACK SIZE 1000
GLYPHOSATE 62% B/F	2.40	47.98	263.89	2,399.03	47.98	263.89	2,399.03
TOTAL	[redacted]	47.98	263.89	2399.03	47.98	263.89	2399.03
TOLL 1	0.00	4.00	16.50	120.00	8.00	20.90	190.00
LABEL & LEAFLET	[redacted]	0.95	4.50	4.50	0.95	4.50	4.50
PACK	[redacted]	5.75	55.00	0.00	5.75	55.00	0.00
SURFACTANT 1	2.60	6.24	34.32	312.00	6.24	34.32	312.00
OTHER CHEMICAL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SUB-TOTAL (COST PER PACK)	[redacted]	64.92	374.21	2,835.53	68.92	378.61	2,905.53
COST/LITRE OR KG	[redacted]	3.25	3.40	2.84	3.45	3.44	2.91
DELIVERY TO AIRR WAREHOUSE		0.02	0.03	0.02	0.00	0.00	0.00
DRUMMUSTER LEVY		0.04	0.00	0.00	0.04	0.00	0.00
MARKETING LEVY		0.03	0.03	0.03	0.03	0.03	0.03
COST/L OR KG AIRR WAREHOUSE		3.34	3.46	2.88	3.52	3.48	2.93
CHINESE PRICE (AUD)		3.11		2.90	3.11		2.90

CHART 3 : APPARENT TOLL FORMULATION CALCULATION MODEL

APPARENT Glyphosate 450 from 97%

COMPONENT	UNIT COST	PACK SIZE 20	PACK SIZE 110	PACK SIZE 1000
GLYPHOSATE TECHNICAL 97% B/F	3.87	0.00	0.00	1795.36
TOTAL	[redacted]	0.00	0.00	1795.36
TOLL 2	0.91	0.00	0.00	910.00
LABEL & LEAFLET	[redacted]	0.00	0.00	4.50
PACK	[redacted]	0.00	0.00	120.00
SOLVENT 1	0.00	0.00	0.00	0.00
SURFACTANT 1	0.00	0.00	0.00	0.00
OTHER CHEMICAL	0.00	0.00	0.00	0.00
SUB-TOTAL (COST PER PACK)	[redacted]	0.00	0.00	2,829.86
COST/LITRE OR KG	[redacted]	0.00	0.00	2.83
DELIVERY TO AIRR WAREHOUSE		0.00	0.00	0.00
DRUMMUSTER LEVY		0.00	0.00	0.04
MARKETING LEVY		0.00	0.00	0.03
COST/L OR KG AIRR WAREHOUSE		0.00	0.00	2.90
CHINESE PRICE (AUD)				2.90

QUOTATION FROM ACCC REPORT OF INVESTIGATION INTO THE AGREEMENT BETWEEN NUFARM AND MONSANTO (3RD MAY 2002). IS THE NUFARM CLAIM BONA FIDE?

"The Commission's market inquiries revealed that the anti-dumping application had already had a negative effect on import competition and that any review of the Minister's decision would be likely to cause further disruption to competition, especially given the length of the review process.

Monsanto and Nufarm then offered section 87B Undertakings to alleviate any competition concerns that the Commission might have in relation to the proposed agreement.

The Undertakings prevent Nufarm and Monsanto from making an application for a review of the Minister for Customs' decision in February 2002 to not impose a dumping duty on glyphosate imported from China.

For the next three years Nufarm and Monsanto must also obtain an opinion from an independent adviser regarding the prospect of success of any proposed glyphosate anti-dumping application prior to lodging such an application. The Undertakings also stipulate that the independent adviser must certify that the proposed anti-dumping application is made bona fide and not frivolously or vexatiously. The independent adviser must be approved by the ACCC and consult with the ACCC in forming their opinion."

THE REALITY OF AN ANTI-DUMPING DUTY ON FF GLYPHOSATE

- **NUFARM WILL INCREASE ITS PRICE TO THE MARKET PRICE + ANTI-DUMPING DUTY.**
- **ACCENSI WILL INCREASE ITS TOLL TO ACHIEVE A PRICE CONSISTENT WITH THE NUFARM PRICE.**
- **INCOME WILL BE TRANSFERRED FROM AUSTRALIAN FARMS (FOR NO COMMENSURABLE BENEFIT) TO DIVIDENDS PAYABLE TO SHAREHOLDERS OF NUFARM AND ACCENSI.**
- **NUFARM IS 23.0% OWNED BY THE SUMITOMO CHEMICAL COMPANY OF JAPAN WHILE THE MAJORITY OF ACCENSI IS OWNED BY CK LIFE SCIENCES OF HONG KONG, PRC.**
- **THERE ARE NO REAL SUBSTITUTES FOR GLYPHOSATE, WHICH ACCOUNTS FOR APPROXIMATELY 60% OF ALL HERBICIDE SALES BY VALUE IN AUSTRALIA.**