

TESTIMONY OF PHIL GOUGH

Good morning. My name is Phil Gough and I am the Senior Vice President of Marketing for El Dorado Chemical Company. I have served in this capacity in the ammonium nitrate fertilizer market for nearly 30 years. I am very pleased to be here today to discuss the importance of the antidumping duty order on Ukrainian ammonium nitrate and why keeping it in place over the next five years is so critical for my company.

Our industry first found it necessary to seek help from this Commission in 1999, when we asked for relief from unfairly priced Russian imports. We had been stunned by large volumes and incredibly low pricing of Russian ammonium nitrate. Once our action against the Russian imports became effective, we thought we had solved our problem. The industry was absolutely knocked flat when immediately, in the same year that the Russian investigation ended, a second, even larger and lower-priced, wave of imports came in from Ukraine. The large trading companies that handle most international sales of ammonium nitrate simply switched sources in response to the Russian case. They brought in about 300,000 short tons of Ukrainian product, even though we had never seen any nitrate from Ukraine in our market before then. We found ourselves right back here at the Commission asking for relief from this "serial" dumping. The antidumping duty order that was put in place in this case has been very effective. It helped our company's ammonium nitrate business to eventually recover and then survive through the very difficult periods that followed. It is clear to me that we would not be here today without the order, and also possible that we will not be in the ammonium nitrate business a year from now if this order is revoked.

This morning, I want to tell you about high density ammonium nitrate, our market, some of the factors that challenge us today and explain to you why the order continues to be so important to El Dorado Chemical Company.

I'd like to start with a description of ammonium nitrate and how it differs from other nitrogen fertilizers. First, ammonium nitrate is a solid fertilizer. It is made up of very small, usually white to off-white prills. In this country, ammonium nitrate is principally sold in bulk. Ammonium nitrate serves a niche fertilizer market, as it has characteristics that make it extremely desirable in certain regions and applications. It accounts for less than 3 percent of all of the nitrogen fertilizer used in this country today. Ammonium nitrate is distinguished from other solid nitrogen fertilizers, such as urea, because of two primary characteristics: (1) it delivers nitrogen to the soil very quickly; and (2) there is much less risk of nitrogen loss through volatilization, meaning loss of nitrogen into the air. Ammonium nitrate is especially popular in the Southern tier United States because its qualities are particularly well-suited for the warmer climates and the types of crops planted, such as grasses or citrus, or where "no-till" methods are used. In "no-till" applications, fertilizer is applied on top of the soil and is not tilled into the soil. Because the fertilizer sits on top of the soil, having fertilizer that is less susceptible to volatilization, especially in warmer, humid climates, is especially desirable.

In regions or in applications for which ammonium nitrate is preferred, the special qualities of ammonium nitrate mean that there is limited substitution between ammonium nitrate and other nitrogen fertilizers. This is even more the case today, as tighter security regulations for AN have reduced usage to those areas and customers where the unique characteristics of AN are particularly important. AN is used either as

a single source fertilizer or in blends with other fertilizers, such as phosphate and potash, and is broadcast on the soil surface.

An important aspect of the AN market is that ammonium nitrate is a commodity product that is manufactured using essentially the same process regardless of where it is produced. Ukrainian-produced ammonium nitrate is a perfect substitute for U.S.-produced ammonium nitrate in terms of quality and uses. The trading companies would never have been able to move those 300,000 tons of Ukrainian nitrate here back in 2000 if it did not meet the quality standards of the U.S. market. Although Ukrainian AN has not been in the U.S. market for a number of years, there is no reason to think that its quality has become worse since that time.

Domestically-produced and imported AN are sold through the same distribution channels and compete for the same business. U.S. producers and importers sell to distributors who then re-sell to dealers and also sell directly to dealers.

Competition in the ammonium nitrate market continues to be almost entirely based on price. Our customers will not buy our product if they can get an equivalent product for less. Our customers read weekly publications such as Green Markets that publish prices for ammonium nitrate at various locations. They are also aware of imported product on its way to the U.S. and can typically purchase product from importers well before it arrives. Every producer and importer of AN has access to the same weekly published information, and the prices of one producer or importer quickly affect the entire market through these publications and word of mouth among the relatively small number of buyers.

Another important factor is that even though demand for ammonium nitrate is seasonal, we produce ammonium nitrate year round in order to fully utilize our plants. We therefore must move product into the distribution chain in order to continue to produce efficiently. We have limited storage facilities, so we sell in the off-season to our customers, who keep the product in their own storage facilities. This benefits the market and farmers, since nitrate will already be in place and available to the farmers when the spring planting season begins. Because the optimal window for application is short, it is important that the product be in the distribution system and ready for dealers to deliver to their farm customers before the season begins. Therefore, even if we had enough storage facility to keep everything at the plant, it would not be possible to move it all out into the distribution system in time to reach dealers and farmers when application is required. As you know, you have to make hay while the sun shines.

This aspect of our market is one of the reasons, aside from the large volumes and low pricing, that the Ukrainian imports in calendar year 2000 had such a negative impact on us. These large volumes of Ukrainian ammonium nitrate were stored in the same facilities as U.S.-produced AN. Storage was quickly filled with Ukrainian product, and U.S. producers had difficulty moving product into the distribution chain and maintaining production efficiencies. When I see the Ukrainians argue that they mostly need to export in their own offseason -- which coincides with our offseason -- I foresee a repeat of this situation. Given the smaller size of the U.S. AN market today, even a portion of the volume they sent in 2000 hitting in our offseason today would again clog up the distribution system, forcing us to reduce production and lose efficiencies.

Today, the U.S. ammonium nitrate industry faces some difficult challenges. In recent years, we have talked to you about high and volatile natural gas prices. All ammonium nitrate is made using ammonia as its primary input, and the primary ingredient in producing ammonia is natural gas. Natural gas or ammonia produced from natural gas accounts for the vast majority of the cost of producing ammonium nitrate. Today, U.S. natural gas prices have moderated and are favorable. But for El Dorado Chemical, the moderated cost of gas has not helped our AN production because we buy ammonia, not natural gas, and ammonia prices have been very high over the last few years. This fact is key to understanding the financial results of our AN operations.

While we are struggling with sky-high ammonia prices, U.S. demand for ammonium nitrate has declined substantially. We had told you back in 2007 that the market was shrinking, in large part because of the new security regulations that were being imposed on ammonium nitrate producers and distributors. As your data show, consumption of fertilizer grade ammonium nitrate today is less than half of what it was when we filed this case. And because of the security regulations, we continue to see dealers decide not to carry nitrate. In fact, just this week, Green Markets reported that Orchard Fertilizer Services, a Nebraska retailer, was acquired by Wilbur-Ellis. But since Wilbur-Ellis no longer allows its facilities to carry AN, this retail location has now become another nitrate casualty. The decline in our market is a fact of life. The big question for us today is whether the new DHS regulations that are due out at the end of this year will cause additional contraction and how much.

We are also dealing with competition from imports from other countries. Even though these imports have not been priced as low as the Ukrainian imports, they

continue to enter the U.S. in large volumes, and since demand is declining, these imports challenge our industry. The Georgian imports that came late in 2012 and have continued to be imported this year have been a particular challenge for us given our shrinking market.

Despite these challenges, El Dorado Chemical Company believes there will continue to be a U.S. ammonium nitrate market and that we will be able to compete. We are well positioned geographically to serve key nitrate consuming regions. We have made environmental improvements and been permitted to operate in a manner that would more fully utilize our capacity. We are planning to build an ammonia plant at El Dorado, so that our cost structure will be based on natural gas prices, rather than market ammonia. But, if this shrinking market is to be subjected to another flood of Ukrainian imports, we may not even get to that point. We urge you to leave this order in place.