

UNITED STATES
INTERNATIONAL TRADE COMMISSION

In the Matter of:)
)
SOLID UREA FROM RUSSIA AND) Investigation Nos.:
UKRAINE) 731-TA-340-E and H
) (Second Review)

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THE UNITED STATES INTERNATIONAL TRADE COMMISSION

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Thursday,
 September 22, 2005

Room 101
 U.S. International
 Trade Commission
 500 E Street, SW
 Washington, D.C.

The hearing commenced, pursuant to notice, at 9:30 a.m., before the Commissioners of the United States International Trade Commission, the Honorable STEPHEN KOPLAN, Chairman, presiding.

APPEARANCES:

On behalf of the International Trade Commission:

Commissioners:

STEPHEN KOPLAN, COMMISSIONER (presiding)
 DEANNA TANNER OKUN, VICE CHAIRMAN
 JENNIFER A. HILLMAN, COMMISSIONER
 DANIEL R. PEARSON, COMMISSIONER
 SHARA L. ARANOFF, COMMISSIONER

APPEARANCES (continued):

Staff:

MARILYN R. ABBOTT, SECRETARY TO THE COMMISSION
WILLIAM R. BISHOP, HEARINGS AND MEETINGS
COORDINATOR
SHARON BELLAMY, HEARINGS AND MEETINGS ASSISTANT

OLYMPIA HAND, INVESTIGATOR
RAYMOND CANTRELL, INDUSTRY ANALYST
JAMES FETZER, ECONOMIST
CHARLES YOST, ACCOUNTANT/AUDITOR
MICHAEL HALDENSTEIN, ATTORNEY
GEORGE DEYMAN, SUPERVISORY INVESTIGATOR

APPEARANCES (continued):

In Support of the Continuation of the Antidumping Duty Orders:On behalf of Ad Hoc Committee Nitrogen Producers ("Ad Hoc Committee"):

JAMES F. DIETZ, President, PCS Nitrogen, Inc., and Executive Vice President and Chief Operating Officer, PCS Administration (USA), Inc.
GLEN BUCKLEY, Chief Economist and Director, Agribusiness Analysis, CF Industries, Inc.
THERIAN LaFLEUR, Owner and Manager, Chastant Brothers, Inc.
DANIEL W. KLETT, Economist, Capital Trade, Inc.

Of Counsel:

VALERIE A. SLATER, Esquire
LISA W. ROSS, Esquire
Akin Gump Strauss Hauer & Feld, LLP
Washington, D.C.

On behalf of Agrium US, Inc.:

GREG McGLONE, Director, Strategic Development, Agrium

Of Counsel:

JOEL R. JUNKER, Esquire
Joel r. Junker & Associates
Seattle, Washington

In Opposition of the Continuation of the Antidumping Duty Orders:On behalf of Nevinomysskiy Azot; Novomoskovsk Azot JSC; JSC MCC EuroChem; Kubyshevazot JSC; JSC "Azot" Berezniki; JSC "Azot" Kemerovo; Fertilizer Producers' Association of Russia ("Russian Respondents"):

ANDREW PARSONS, Precision Economics, LLC

APPEARANCES (continued):

Of Counsel:

FRANK H. MORGAN, Esquire
JAY C. CAMPBELL, Esquire
SCOTT S. LINCICOME, Esquire
White & Case, LLP
Washington, D.C.

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P R O C E E D I N G S

(9:30 a.m.)

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2
3 CHAIRMAN KOPLAN: Good morning. On behalf
4 of the United States International Trade Commission, I
5 welcome you to this hearing on Investigation Nos. 731-
6 TA-340 E and H (Second Review) involving Solid Urea
7 from Russia and Ukraine.

8 The purpose of this second five-year review
9 investigation is to determine whether revocation of
10 the antidumping duty orders covering solid urea from
11 Russia and Ukraine would be likely to lead to
12 continuation or recurrence of material injury to an
13 industry in the United States within a reasonably
14 foreseeable time.

15 Notice of investigation for this hearing,
16 list of witnesses, and transcript order forms are
17 available at the secretary's desk.

18 I understand the parties are aware of the
19 time allocations. Any questions regarding the time
20 allocations should be directed to the secretary. As
21 all written material will be entered in full into the
22 record, it need not be read to us at this time. The
23 parties are reminded to give any prepared testimony to
24 the secretary. Do not place testimony directly on the
25 public distribution table.

1 All witnesses must be sworn in by the
2 secretary before presenting testimony.

3 Finally, if you will be submitting documents
4 that contain information you wish classified as
5 business confidential, your request should comply with
6 Commission Rule 201.6.

7 Madam Secretary, are there any preliminary
8 matters?

9 MS. ABBOTT: No, Mr. Chairman.

10 CHAIRMAN KOPLAN: Did I understand that a
11 witness has been added this morning?

12 MS. ABBOTT: A witness changed. Greg
13 McGlone, director, strategic development, Agrium, is
14 the witness later in the morning panel, page 2.

15 CHAIRMAN KOPLAN: Thank you.

16 MS. ABBOTT: The calendar has been changed
17 to reflect that.

18 CHAIRMAN KOPLAN: I appreciate that. Very
19 well. Let us proceed with the opening remarks.

20 MS. ABBOTT: Opening remarks in support of
21 continuation of orders will be by Valerie A. Slater,
22 Akin Gump Strauss Hauer & Feld.

23 MS. SLATER: Good morning, Chairman Koplan
24 and members of the Commission staff.

25 CHAIRMAN KOPLAN: Good morning.

1 OPENING REMARKS BY VALERIE A. SLATER

2 MS. SLATER: It's a pleasure to appear
3 before the Commission this morning on behalf of the Ad
4 Hoc Committee of Domestic Nitrogen Producers and a
5 particular pleasure to appear before Commissioner
6 Aranoff in what I know must be one of her first
7 hearings and to see her move from one table where we
8 saw her for many years to another.

9 This five-year review of the antidumping
10 orders on solid urea from Russia and Ukraine is one
11 which is very important to the U.S. urea industry,
12 even though it is a second review of an order which
13 has been in effect since 1987. Given that these
14 orders arose out of a petition filed in 1986 seeking
15 relief from unfairly traded urea from the Soviet
16 Union, you would think perhaps, with all that has
17 happened in that time, that these orders would no
18 longer be necessary, you would think.

19 In fact, that has been the case with respect
20 to all of the other orders that resulted from that
21 1986 petition. Orders against the GDR, Romania, and
22 all of the other former Soviet republics have now been
23 revoked based on the industry's expressions of no
24 interest at various points in time. Unfortunately,
25 some 18 years later, the orders on urea from Russia

1 and Ukraine are still very much necessary to prevent
2 recurrence of injury.

3 Since 1987, many things have, of course,
4 changed. The Soviet Union is gone, Russia is
5 considered by our Commerce Department to be a market
6 economy, and Ukraine recently has made very important
7 strides toward democracy and market reforms, but in
8 both of these countries the nitrogen fertilizer
9 industry has continued to operate on a nonmarket
10 basis. Natural gas, the raw material from which urea
11 is produced, -- it's the feedstock -- is provided to
12 producers in these countries at prices set by the
13 governments at below the cost of even producing the
14 gas.

15 As a result, the urea plants in those
16 countries continue to turn out massive amounts of
17 urea, almost all of it for export, and to pump this
18 product into the world markets at prices that are
19 consistently the lowest in the world. This continuing
20 nonmarket distortion has become a prominent issue in
21 these countries' WTO accession processes, and it's one
22 which has been particularly discussed bilaterally and
23 multilaterally in the context of its effects on world
24 nitrogen trade.

25 Because the underlying condition that

1 necessitated the filing of this petition in 1986 has
2 persisted, the orders have continued to be necessary,
3 and the industry has continued to benefit. These two
4 countries are today, by far, the largest source of
5 exported urea. They account for more than a quarter
6 of total world trade. As you will hear today, outside
7 of the United States, pricing in the most important
8 markets is set by reference to export prices from the
9 Black Sea ports and the Baltic ports from which Russia
10 and Ukraine export their urea.

11 In this country, that has not been the case
12 since the orders were imposed in 1987. Today, you are
13 looking at an industry that's much smaller than it was
14 18 years ago and even smaller than it was in 1999.
15 This industry is faced with remarkable cost-side
16 challenges, as you will hear from the witnesses today.
17 You will hear from each of the three largest U.S.
18 producers of urea who account for the lion's share of
19 U.S. production. These gentlemen will explain to you
20 the current situation of their industry and why they
21 are absolutely convinced that in the absence of the
22 orders, there will be a recurrence of injury.

23 We will also have testimony from Mr. Therian
24 LaFleur, a fertilizer dealer from Lafayette,
25 Louisiana, who will provide some very practical

1 testimony concerning the product forms and customer
2 choices.

3 As you listen to these witnesses, and I know
4 you will, you'll hear why it is that the U.S. market
5 is so attractive to these imports and, more correctly,
6 to the very large trading companies who deal in this
7 commodity product. You will hear why it is that the
8 prilled form of urea will have no problem making
9 inroads once again into the market and why the
10 industry's excellent financial results, despite record
11 gas prices last year, will not change that outcome.

12 Finally, I want to just close and let you
13 get to the important testimony by commending to you
14 the Green Markets publication from this past Monday,
15 which is a weekly publication you'll hear referenced
16 often. This week, the front page story is this
17 hearing in this case in which the Green Markets
18 reports that the industry heavily anticipates the
19 outcome of this case. Keep that in mind as you listen
20 to the testimony today and ask yourselves why this
21 industry, in particular, purchasers, heavily
22 anticipating the outcome of the case if there won't be
23 much impact, as you'll hear, I'm sure, from counsel
24 for the Russian side. Thank you very much.

25 CHAIRMAN KOPLAN: Thank you, Ms. Slater.

1 MS. ABBOTT: Opening remarks in support of
2 revocation of orders will be by Frank H. Morgan, White
3 & Case.

4 CHAIRMAN KOPLAN: Good morning, Mr. Morgan.

5 OPENING REMARKS BY FRANK H. MORGAN

6 MR. MORGAN: Good morning, Chairman Koplan
7 and members of the Commission. Let me also welcome or
8 say it's nice to see Commissioner Aranoff sitting
9 there. I had some exposure to Ms. Aranoff when I was
10 at the general counsel's office as an intern, so it's
11 a pleasure to be addressing her as a commissioner
12 today.

13 I'm joined by my colleagues, J. Campbell and
14 Scott Lincicome, and we also have with us Andrew
15 Parsons from Precision Economics.

16 We're here today on behalf of a number of
17 Russian producers and the Fertilizer Producers
18 Association of Russia. I want to apologize for the
19 fact that you have to endure the testimony of lawyers
20 and economists today. Our clients would have liked to
21 be here but, unfortunately, cannot be. We also worked
22 very hard to get participants in the U.S. market to
23 appear. The key problem we encountered was that most
24 people we spoke to viewed the possibility of
25 revocation, at most, as opening an alternative source

1 of supply. There just was not a great deal of
2 interest or excitement.

3 Our clients, of course, want to see the
4 orders removed and express that view in their
5 questionnaire responses. Any rational business would
6 want to have access to as many markets as possible,
7 even if only as an alternative to existing ones. In
8 our testimony, we will address the facts showing this
9 to be the case upon revocation.

10 There is a surprising number of things that
11 the parties agree upon in this review. All sides
12 agree that inefficient U.S. producers have exited and
13 that the remaining producers are financially strong,
14 lean, and competitive. Another area where we all
15 agree is that nonsubject imports sold by international
16 trading companies play an important role in the U.S.
17 market and have done so since the imposition of these
18 orders nearly 20 years ago. As the domestic producers
19 concede, these nonsubject imports have been fairly
20 traded.

21 There is a number of other areas where the
22 parties may not agree as to the implications but where
23 the facts are incontrovertible. As we detailed in our
24 prehearing brief at page 28, a significant percentage
25 of U.S. production is insulated from import

1 competition, irrespective of any differences between
2 granular and prilled urea. Growth in demand for urea
3 is outpacing that of other nitrogen fertilizers in
4 both the U.S. and the rest of the world, and urea
5 prices are established in a world market.

6 Two forms of urea exist: granular and
7 prilled. All of the subject producers currently
8 manufacture prilled urea, with one Ukrainian producer
9 possibly installing granular capacity. Whereas
10 prilled urea accounted for only 26 percent of U.S.
11 shipments in 2004, a greater-than-50-percent decline
12 since 1999, granular and prilled urea sell at
13 different prices in the U.S. market, with granular
14 dominating for agricultural uses and prilled
15 dominating for industrial ones.

16 So what does all of this mean? For the last
17 20 years, international trading companies have been
18 selling nonsubject urea in the U.S. market at prices
19 the U.S. industry concedes have not been unfair, and
20 as the current condition of the industry demonstrates,
21 non injurious. These same trading companies claim the
22 domestic producers are those that are likely to import
23 subject merchandise. Should they do so, the record
24 strongly supports the conclusion that it would be an
25 alternative to existing prilled imports.

1 Based on nearly 20 years of fair trade at
2 noninjurious prices, one would be hard pressed to
3 conclude they would alter that behavior, either in
4 volume or price terms. In fact, these trading
5 companies have an interest as great as that of the
6 domestic industry in seeing that volumes and price
7 remain at profitable levels and thus could be expected
8 to play a gate-keeper role. Should any subject
9 merchandise enter the stream of commerce, it would
10 disproportionately displace nonprilled imports and
11 would have little, if any, impact on U.S. producers'
12 production and shipments, nearly three-quarters of
13 which are granular urea.

14 Turning to the domestic industry as a whole,
15 the record shows that any impact after revocation
16 would be quite limited. The industry is lean,
17 competitive, and quite profitable, with an operating
18 income margin of 15.2 percent. All indications are
19 that this strong performance has continued throughout
20 2005. Demand in both the United States and the rest
21 of the world is strong and rising and increasing more
22 rapidly than projected increases in supply, many of
23 which have still failed to materialize.

24 In light of these facts, injury to the U.S.
25 industry as a whole is not likely. Even taking the

1 worst-case scenarios that the domestic producers
2 projected shows this to be the case. At the lower
3 end, the domestic producers offer an estimated impact
4 on operating income margins that is entirely
5 implausible in view of the record facts. At the
6 higher end, although the forecasted impact still is
7 implausible, the domestic industry fails to show that
8 revocation is likely to lead to material injury.
9 After nearly 20 years, the time has come, and the
10 facts call for revoking these orders. Thank you.

11 CHAIRMAN KOPLAN: Thank you.

12 Madam Secretary?

13 MS. ABBOTT: The first panel, in support of
14 the continuation of the orders, please come forward.
15 The witnesses have been sworn.

16 CHAIRMAN KOPLAN: Thank you.

17 (Pause.)

18 CHAIRMAN KOPLAN: You may proceed. I note
19 that we have prepared statements from each of the
20 industry witnesses this morning.

21 MS. SLATER: Good morning again. I am
22 Valerie Slater of Akin Gump Strauss Hauer & Feld. Our
23 panel this morning will include representatives of the
24 three largest U.S. producers, as I mentioned, and
25 we're going to lead off with Mr. Dietz, who is the

1 president of PCS Nitrogen.

2 MR. DIETZ: Good morning, everyone. My name
3 is Jim Dietz. I am the president of PCS Nitrogen,
4 Inc., and chief operating officer of Potash Corporation.
5 I'm honored to have the opportunity to appear before
6 this Commission today.

7 The continuation of the antidumping orders
8 on solid urea from Russia and Ukraine is very
9 important to PCS Nitrogen, and it's likely to be a
10 determining factor in the future of our U.S. urea
11 operations.

12 PCS Nitrogen operates two urea production
13 facilities in the United States. Our plant in Lima,
14 Ohio, produces both prilled and granular urea, and our
15 facility in Augusta, Georgia, produces prilled urea.

16 Today, we are asking the Commission to allow
17 the antidumping orders on urea from Russia and Ukraine
18 to remain in effect for another five years. As you
19 know, we have concluded that all of the other orders
20 that had been in place since 1987 are no longer
21 necessary. The next five years, however, will be a
22 period of critical importance for the nitrogen
23 industries in Russia and Ukraine, as well as for the
24 U.S. urea industry. Accordingly, we are seeking
25 renewal of these orders through 2010.

1 What makes the next five years such a
2 pivotal period? The short answer is natural gas.
3 During this period, we are hopeful that there will be
4 meaningful changes in the industrial natural gas
5 pricing situations in Russia and Ukraine. We also
6 hope to see the normalization of natural gas prices in
7 the United States. We sincerely hope, and even
8 expect, that we will not have to seek continuation
9 beyond 2010. We believe, however, that if these
10 orders are not continued, we may not be here in 2010.

11 It is important for the Commission to be
12 mindful of one very important fact: Solid urea is
13 made using natural gas as the primary feedstock and
14 only nominally as an energy source. Natural gas is
15 the basic raw material and accounts for about half of
16 the cost of production when gas is at three dollars
17 but is nearly 75 percent with gas at eight dollars per
18 million BTUs.

19 Russia and Ukraine are the world's largest
20 exporters of urea. Production in both countries has
21 continued at enormous levels since 1986 because, as in
22 the Soviet era, natural gas is supplied to urea plants
23 at prices set by the Russian government. These prices
24 are well below the cost of producing the gas. In
25 addition, the Russian gas supplier has an ownership

1 interest in a significant portion of urea production,
2 further complicating the issue.

3 While Russia and Ukraine will certainly
4 continue to be major nitrogen suppliers, even when
5 their gas prices are set at commercially reasonable
6 levels, the extent of their production and the
7 aggressive pricing of their exports will have to
8 change when their producers have a real-world, market-
9 based cost.

10 Russia claims to be implementing a strategy
11 for increasing its industrial gas price, but even if
12 it follows through, it will take years for gas prices
13 to reach a level that covers the full cost of
14 producing the gas. In five years, we will know
15 whether Russian industrial gas pricing policies have
16 been reformed.

17 At the same time that Russian and Ukrainian
18 plants are running on nonmarket gas, gas prices in the
19 United States have increased substantially. Natural
20 gas prices in the United States were, for many years,
21 in the range of two to three dollars per million BTUs.
22 Since late 2001, gas prices have been extremely
23 volatile. In 2004, average natural gas prices were at
24 about \$6.14 per million BTUs. This year, gas prices
25 have averaged over seven dollars per million BTUs.

1 Today, in the wake of the supply
2 interruptions caused by Hurricane Katrina, natural gas
3 prices are well above \$12. While we, like other
4 producers, use hedging and other tools to help manage
5 the risks of severe gas price fluctuations, those
6 tools cannot change the fact of significantly
7 increased production costs. In 2003, increasing
8 natural gas prices led PCS to indefinitely close its
9 urea prill plant in Memphis, Tennessee, and it remains
10 shut today.

11 Higher natural gas prices have not made all
12 U.S. plants uncompetitive. U.S. producers, in
13 general, have the advantage of being close to their
14 markets. While that advantage will make up for some
15 differences in natural gas costs, it is certainly no
16 guarantee. U.S. producers learned that lesson the
17 hard way. Starting in 2003, the domestic industry has
18 closed plants and streamlined operations as fairly
19 traded imports have made some of our production
20 uneconomic, even in our own market. Our remaining
21 plants are competitive, but we are extremely concerned
22 about their future viability if the orders on Russian
23 and Ukrainian product are revoked.

24 Much has been made of a statement in our
25 parent company's 2004 annual report indicating that

1 our Lima plant "has a good inland location that is
2 insulated from imports." This does not, of course,
3 mean that Lima is immune from the effects of imports
4 any more than an insulated house is immune to the
5 effects of cold weather. The house may stay
6 comfortable longer than one without insulation, but
7 eventually it will become cold.

8 Our Lima plant has a favorable geographic
9 location, meaning that imports must be willing to bear
10 inland transportation costs to compete for some of the
11 regional customers served by that plant. These inland
12 costs will be higher than those incurred by imports to
13 provide urea to other regions. However, particularly
14 as our costs rise and as imports become lower priced
15 and less disadvantaged by inland transportation costs,
16 we are extremely vulnerable.

17 Urea shipped from Russia and Ukraine to the
18 U.S. Gulf at prices suggested by the current Black Sea
19 prices would easily make its way into the markets and
20 customers served by our Lima plant. It would be a
21 blast of cold air, well outstripping the R factor of
22 our favorable location. But we will be affected, even
23 if these imports are not shipped to our key market
24 areas.

25 As I mentioned, we produce both prilled and

1 granular urea. Most of our prilled product goes to
2 the industrial market where it is used for the
3 production of resins and other industrial
4 applications. With the exception of a relatively
5 small quantity of formaldehyde-free urea that we sell
6 to specialty pharmaceutical applications, all of our
7 production, both prilled and granular, is highly
8 sensitive to market price fluctuations and to
9 competition from imports.

10 Pricing for urea to industrial users is
11 closely linked to published prilled and granular
12 prices that appear in Green Markets and similar
13 fertilizer trade publications. Our industrial
14 customers follow these prices and reference them in
15 negotiations. Without going into details in this
16 public forum, certain of our contracts for sales of
17 prilled urea to industrial customers are tied to
18 published prices, including prices for granular urea.
19 Similarly, the prilled product that we sell into the
20 ag. market for fertilizer use is priced by reference
21 to the published granular price.

22 We compete with imports every day. Our
23 customers are savvy and cost conscious. We must be
24 keenly aware of the published prices in the ag.
25 markets and to meet the prices offered for most of our

1 production. Today, the price for Russian and
2 Ukrainian product exported from the Black Sea is at
3 \$210 per metric ton, which translates into a delivered
4 U.S. Gulf price of about \$236 per metric ton, based
5 upon yesterday's quoted freight rates. If Russian and
6 Ukrainian urea began to be shipped into the U.S.
7 market, our prices would certainly be impacted, given
8 that the average price of prilled imports into the
9 Gulf is currently \$275 per metric ton, and granular
10 prices at the Gulf are \$300 per metric ton.

11 The antidumping orders against urea on
12 Estonia, Romania, and other FSU countries were revoked
13 at the end of last December. Trading companies began
14 to quickly move prilled urea from those countries into
15 the U.S. market. We have obtained reliable
16 information indicating that this Romanian and Estonian
17 prilled urea is being sold in the United States for
18 all applications, including feed, industrial, lawn and
19 garden, and fertilizer. In the fertilizer market, it
20 is competing with granular. We would be happy to
21 provide you details on a confidential basis.

22 Today, our industry is struggling with the
23 immensely difficult cost-side pressures being created
24 by unprecedented volatility and increases in natural
25 gas costs. In 2004, we were profitable despite the

1 record costs, in part because short-term supply
2 conditions created tightness in the global urea
3 marketplace and in the United States. This tightness
4 has been the result of some unexpected plant outages
5 around the world and delays in new capacity coming on
6 stream. A number of Middle Eastern plants that were
7 scheduled for completion in 2004 and 2005 were delayed
8 in their start-ups. China, which, in 1997, closed its
9 enormous urea market to develop its own capacity and
10 to meet its strategy of self-sufficiency, became a
11 large urea exporter in 2004, but this year the Chinese
12 government limited exports for their internal needs.

13 All of these conditions came together to
14 create a tightness in the market, allowing U.S.
15 producers to bring prices above record high production
16 cost levels. We know these conditions will not
17 continue. China has already reduced its export
18 tariff, and new plants in the Middle East are coming
19 on stream. While we know in great detail the amount
20 of new supply that will come into the market, we
21 certainly hope that by the time this occurs, gas
22 prices in the United States will stabilize. However,
23 in the meantime, an influx of unfairly traded urea
24 from Russia and Ukraine would, as our president of
25 sales and marketing recently told me, be the nail in

1 the coffin.

2 We cannot, as the Russian parties have
3 suggested, simply pass along increased costs without
4 regard to the market. U.S. producers are challenged
5 with record high and volatile U.S. natural gas prices.
6 Of course, cost is important, but it is the
7 relationship between cost and product price that is
8 critical. For example, in 1999, 2001, and 2002, the
9 three years with lower energy and gas prices, the U.S.
10 industry incurred losses. In 2000, 2003, and 2004,
11 years with much higher gas prices, the industry, as a
12 whole, was in the black. Pricing, of course, is the
13 key.

14 Let me conclude where I began. We sincerely
15 hope that we will not need to make this request in
16 2010, but this year, given the continuing nonmarket
17 economics and aggressive pricing of Russian and
18 Ukrainian urea and the situation faced by U.S.
19 producers, we are asking the Commission not to revoke
20 the remaining two urea antidumping orders in this
21 review.

22 Thank you for your attention, and we'll be
23 glad to answer any questions.

24 MS. SLATER: I would like to turn now to Mr.
25 Buckley of CF Industries.

1 MR. BUCKLEY: Good morning, Mr. Chairman and
2 members of the Commission and staff. My name is Glen
3 Buckley, and I am the chief economist and director of
4 agribusiness analysis at CF Industries. I have been
5 with CF for 25 years. I have a bachelor's degree in
6 agricultural resource management and a master's degree
7 in agricultural economics.

8 One of my responsibilities at CF is to
9 track, monitor, and analyze fertilizer markets. I
10 appreciate the opportunity to be before you this
11 morning and to discuss the U.S. urea market and why CF
12 strongly supports the continuation of the Russian and
13 Ukrainian orders for an additional five-year period.

14 CF Industries operates the largest, solid
15 urea production facility in the United States. Our
16 plant is located in Donaldsonville, Louisiana, and has
17 a total annual solid urea capacity of over 1.7 million
18 tons. We also have a substantial interest in a urea
19 plant in Medicine Hat, Alberta, Canada, through which
20 we serve customers in the upper Midwest and Pacific
21 Northwest.

22 In the United States, the primary demand for
23 solid urea is as a nitrogen fertilizer, which accounts
24 for approximately 70 percent of total solid urea
25 demand. The remaining 30 percent is used in a variety

1 of industrial applications, such as resins and as an
2 animal feed supplement. I am going to speak today
3 about the fertilizer applications.

4 In the United States, solid urea is one of
5 the most widely used nitrogen fertilizers. It has a
6 high nitrogen content of 46 percent and is relatively
7 easy to handle, store, and apply. Unlike UAN
8 solutions or ammonia, the other two widely used
9 nitrogen fertilizers in this market, it does not
10 require any specialized application equipment. It can
11 be applied using any one of a variety of different
12 types of equipment designed for the application of dry
13 fertilizer products.

14 Urea is used on almost every major crop
15 produced in the United States, including corn, wheat,
16 rice, cotton, and pasture. Urea can be spread by
17 itself onto the field, which we call "direct
18 application," or blended with other dry fertilizer
19 products, such as phosphate and/or potassium.

20 The U.S. distribution system for urea has
21 changed very little since the Commission first
22 examined the urea market. Urea is moved up the
23 Mississippi River in 1,500-ton barges to distribution
24 terminals owned by U.S. producers and large
25 distributors who may operate terminals on the river

1 system. From U.S. plants, urea is also moved into the
2 market by rail and by truck.

3 A high percentage of urea imports enter at
4 the Gulf of Mexico at gulf ports, particularly through
5 New Orleans. Urea imports move through the same
6 distribution channel as U.S.-produced urea, with large
7 vessels unloading urea onto barges or into facilities
8 from which it is moved into the key consuming regions.

9 U.S. producers generally sell to local and
10 regional distributors, who, in turn, sell to dealers
11 or sometimes directly to farmers. These large
12 customers, particularly regional distributors, also
13 purchase and sell imported urea. U.S. producers
14 compete head to head with imports on a day-in-and-day-
15 out basis. Most imported urea is brought into the
16 U.S. market by large trading companies, such as
17 Transammonia and Keytrade. These same traders also
18 move large quantities of urea from Russia and Ukraine
19 to other markets outside of the United States.

20 Today, there are six producers in the United
21 States, as compared to the two dozen or so that were
22 operating when the case was filed in 1986. As plants
23 have aged, many have been shut down, particularly as
24 growing cost-side pressures have made production at
25 older plants uneconomical and unable to compete with

1 fairly traded imports. The remaining producers are
2 the most efficient producers and are those best
3 positioned to compete.

4 With the exception of the Agrium plant in
5 Kenai, Alaska, all U.S. urea production is designed to
6 serve the U.S. market. U.S. production is not
7 positioned to, and cannot economically compete in,
8 markets outside of the United States.

9 It is important for the Commission to
10 recognize that while world supply and demand
11 conditions do affect the U.S. market, a number of
12 different factors result in price differences between
13 the U.S. market and urea markets in other parts of the
14 world. These include transportation costs, both ocean
15 freight and inland freight; delivery time; and foreign
16 government policies, such as tariffs, import
17 limitations, and export restrictions.

18 Because different prices typically exist in
19 different markets and because urea is a fungible
20 commodity, exporters and traders will generally take
21 urea to the markets that not only have the best net-
22 back but also can take large volumes of product. A
23 trader's total profit is affected by his margin but
24 also by his total sales volume, and this is a very
25 important point.

1 Due to the conditions that have recently
2 affected the world supply situation, the U.S. market
3 has, at times, been less attractive than other
4 markets, such as southeast Asia. However, this
5 situation has already been resolved. U.S. prices are
6 again more favorable to exporters than prices in other
7 export markets on a net-back basis.

8 There are also certain other advantages that
9 will attract Russian and Ukrainian imports to the U.S.
10 market. First, the United States is the single
11 largest importing country worldwide. Given the
12 quantities that Russia and Ukraine export and the fact
13 that the U.S. is, by far, the largest importing
14 country, our market is an obvious target.

15 Second, the United States has a favorable
16 business climate, a transparent market, and no duties,
17 as compared with significant import duties imposed in
18 other countries.

19 Third, payment is in U.S. currency.

20 Fourth, shipping distances to U.S. ports are
21 shorter, as compared to Latin American or Asian
22 markets.

23 Fifth, unloading delays and port congestion,
24 which are frequent in Latin American and Asian ports,
25 can result in significant demurrage charges of up to

1 \$20,000 a day.

2 While in Brazil last week, I talked to a
3 representative from a company that brings both
4 products into that country, and he confirmed that two-
5 to-three-day demurrage charges are typical, and two-
6 to-three-week delays in unloading are common.

7 Russia and Ukraine continue to be the
8 largest exporters of solid urea in the world. Their
9 exports exceed those of the next largest supplier,
10 Qatar, by almost a factor of three.

11 As I just mentioned, the United States is
12 the largest single importing country, with import
13 volumes almost twice that of the entire European
14 Union. Without the orders, our market will be very
15 attractive to Russian and Ukrainian supply, just as it
16 is to other imports. In fact, we have seen recently,
17 traders and importers have already moved urea from
18 Belarus, Estonia, and Romania into this market. This
19 occurred almost immediately after the antidumping
20 orders on urea from those countries were revoked.

21 This is important for two reasons. First,
22 it demonstrates how attractive the U.S. market is,
23 especially since some of this volume was imported even
24 when the U.S. net-back may not have been as attractive
25 on a nominal basis as other destinations. And,

1 second, it highlights the manner in which trading
2 companies are able to quickly shift supplies from one
3 market to another. These are the same trading
4 companies that already move most of the Russian and
5 Ukrainian exports into world markets.

6 In addition, any claim that Russian and
7 Ukrainian urea could not be corrected at the U.S.
8 market because of established relationships in third-
9 country markets is, frankly, ridiculous. It is
10 principally the trading companies, not the Russian and
11 Ukrainian producers, who have relationships with
12 buyers in importing markets. Further, these same
13 traders also have established relationships with
14 buyers in this country and could easily and rapidly
15 move Russian and Ukrainian urea into the United States
16 market.

17 I also want to speak briefly about the claim
18 that imports to the U.S. market cannot increase
19 because Russian and Ukrainian urea is prilled while
20 U.S. customers prefer granular. There are, of course,
21 differences between the two products. There always
22 have been. However, for most applications, prilled
23 urea is still perfectly acceptable and can be
24 substituted for granular product.

25 While the prevalence of granular in the U.S.

1 market has unquestionably grown, there are two
2 relatively simple reasons. The first is that granular
3 urea has certain advantages. There is no contention
4 about that. The second, and probably more important
5 reason, however, is that prilled urea has been priced
6 very close to granular urea.

7 By analogy, if you are buying a car, and you
8 can get a luxury package for a nominal cost
9 difference, why not take the luxury package?

10 Another reason why granular has grown in
11 relation to prilled urea is that as older U.S. plants
12 have closed, the supply that has been removed from the
13 market was primarily prilled. This is because the
14 older plants tended to have the older prilling
15 technology.

16 Similarly, as new capacity has come on
17 stream around the world, it has primarily been
18 granular capacity. On balance, more granular supply
19 is available in the United States and from countries
20 supplying the U.S. market. This does not mean that
21 U.S. producers could not or do not or would not
22 purchase prills if they are available and particularly
23 if they are significantly cheaper than granular
24 product.

25 Returning to the car example, if someone

1 offered you the car without the luxury package at a
2 substantial discount, you would probably take it.

3 Buyers of urea are price sensitive, and with
4 a sufficient price discount on prills, many customers
5 will switch to prills or force their granular
6 suppliers to reduce prices.

7 If the antidumping orders are revoked, there
8 is a very strong likelihood of increased shipments
9 from Russia and Ukraine, with resulting pressure on
10 U.S. prices due to underselling and volume additions.

11 I have watched this market for 25 years.
12 One thing that has not changed since 1986 is the
13 willingness of the Russian and Ukrainian exporters and
14 the traders they deal with who market their urea to
15 undercut the market to move volume. They are doing it
16 in third-country markets today. They will do it again
17 to gain market share here, resulting in likely
18 negative effects on the U.S. industry's sales and
19 volumes.

20 One final point: Respondents have
21 challenged the calculation in the staff report that
22 approximately 80 percent of solid urea consumption as
23 a fertilizer is direct application. Exhibit 26 in our
24 prehearing brief provides the support for our
25 calculations. It is clear from the publication called

1 Commercial Fertilizers that the volume recorded for
2 urea is for a single-nutrient or direct application.
3 The Commercial Fertilizers report specifically states
4 that they attempt to exclude sales of fertilizer for
5 blends from their single-nutrient data to avoid double
6 counting.

7 The White & Case brief reports the direct
8 application volume of 2.7 million short tons of urea
9 reported in the staff report but did not recognize
10 that this volume is on an end-content basis. This
11 converts to 5 million short tons on an actual tonnage
12 basis. In other words, they just screwed up their
13 calculation.

14 I thank you for your time and attention, and
15 I look forward to answering your questions.

16 MS. SLATER: I would like to turn now to Mr.
17 McGlone of Agrium.

18 MR. McGLONE: Good morning, Commissioners.
19 Thank you for the opportunity to speak with you about
20 this very important topic.

21 My position is the director of strategic
22 development at Agrium. I have been in the fertilizer
23 business for 21 years, during which I've been involved
24 in urea plant operations, South American production
25 and retail operations, and in North America, wholesale

1 sales, and distribution of urea and other fertilizer
2 products.

3 This morning, I would like to address my
4 testimony to three principal points. First, I would
5 like to describe Agrium's experience on how Black Sea
6 prices dictate pricing in export accounts and how the
7 same effect would occur with respect to U.S. pricing
8 if the dumping order on solid urea were terminated.

9 Second, I would like to clarify Agrium's
10 position on the urea supply/demand balance in the next
11 five years.

12 Finally, I would like to close by commenting
13 specifically on the effect that termination of the
14 dumping order would have on Agrium's border production
15 facility in Texas.

16 Agrium US is in a unique position as a
17 domestic producer of urea. Agrium produces urea in
18 the U.S. market for the domestic market, in the U.S.
19 for the international market, and we import from our
20 parent company in Canada. Our domestic urea
21 production facilities are located in Borger, Texas,
22 and Kenai, Alaska. The Borger operation produces
23 approximately 100,000 short tons of prilled urea for
24 the feed grade and agricultural markets. The Kenai
25 operation previously produced both granular and

1 prilled urea. However, under the new gas supply
2 contract for Kenai, production is now limited to
3 700,000 short tons of granular product.

4 Virtually all product from Agrium's Kenai
5 operation goes into the export market. Because of
6 restrictions under the Jones Act and the general
7 unavailability of U.S. bottom vessels, product
8 produced in Kenai cannot enter the U.S. market at this
9 time. Agrium would like to sell this product into the
10 U.S. market, but until current transportation
11 restrictions under the Jones Act can be exempt or
12 accommodated, we will continue to sell granular urea
13 products from Kenai in export markets.

14 Agrium's exports of granular urea from Kenai
15 go to Mexico, Chile, and Korea. The majority of that
16 product goes to Mexico and Chile, where it competes
17 head to head with Russian prilled urea.

18 It is important to understand how prices are
19 determined in these export markets in which we compete
20 with Russian prills because that is how prices will be
21 determined in the United States if the dumping order
22 is terminated and Russian product enters the domestic
23 U.S. market. The benchmark export price is set by
24 Black Sea prill FOB prices plus the transportation
25 costs to the target market. That is the price that

1 export market competitors must effectively match to
2 compete against Russian product.

3 You may ask, why are Black Sea prices the
4 benchmark price? Russian producers do not typically
5 curtail production in relation to demand. They
6 consequently seek to have a continuous, uninterrupted
7 off-take of the urea. Fertilizer traders buy direct
8 from the Russian producers at prices which ensure that
9 the Russian product will find a home in an export
10 market. Essentially, the Russian pricing is driven by
11 volume placement rather than profit margin priorities.
12 This scenario is possible because of the Russian gas
13 supply situation, which allows them to accept prices
14 at low levels.

15 Thus, the Black Sea prices of product
16 continuously entering the world market becomes the
17 benchmark for all export markets in which Russia
18 competes.

19 The problem is, however, that the Russian
20 Black Sea benchmark price, being volume-place driven
21 and supported by low gas costs, is also consistently
22 the lowest price that Agrium's Kenai production must
23 meet in export markets.

24 This price setting in export markets differs
25 from the way prices are determined in those export

1 markets where Agrium competes head to head with Arab
2 Gulf producers. Arab Gulf producers tend to price on
3 a delivered basis that reflects the unique market
4 situation of the target country. It is not a flat FOB
5 price for all countries.

6 In addition, the market discipline of Arab
7 Gulf producers is further differentiated from Russian
8 producers in that they have invested in finished
9 product storage capacity that allows them to build
10 inventory when the market is long on urea. They,
11 unlike Russian producers, are not forced to move
12 volume regardless of market conditions. This more
13 closely reflects the North American model of American
14 and Canadian urea producers.

15 Thus, if the U.S. market is again one in
16 which Russian products are in head-to-head competition
17 with U.S. and nonsubject country products, Black Sea
18 prices will again be the benchmark for U.S. prices.

19 With respect to the subject of supply/demand
20 balances, the Russians' brief cited Agrium public
21 comments to support the conclusion that a balance
22 between supply and demand will continue as favorable
23 conditions for the domestic industry. The
24 supply/demand balance, however, is not a condition
25 that is forecasted by Agrium past 2005 for urea.

1 I would like to clarify first the quotations
2 in the Russian brief at page 57 where Agrium's CEO is
3 quoted as saying that demand in pricing for urea has
4 strengthened and that it is likely to continue. The
5 quotes specifically relate, however, to the Chinese
6 export tax situation and to the second half of 2005.
7 If one looks to the global supply/demand balance in
8 the next five years, the supply/demand situation will
9 be significantly different.

10 Within the next five years, world supply
11 will be increased by significant new urea production
12 capacity. Iran, Oman, Saudi Arabia, Egypt, Qatar,
13 Vietnam, Trinidad, and Brazil have announced
14 production to come on line within the next five years
15 that will add a 20-percent increase over 2005 world
16 production capacity. With that amount of added
17 production capacity in a relatively short period, the
18 supply/demand balance is not likely to continue.

19 The last point I would like to make is with
20 respect to Agrium's Borger production. The fact that
21 this facility only makes prilled urea and services the
22 southwest U.S. market makes it extremely vulnerable to
23 unfairly low-priced, imported prill urea. Borger has
24 survived because it has established a niche for its
25 prill size in the feed grade market. This unique

1 position could be eliminated by unfairly low-priced
2 Russian or Ukrainian imports that are resized for this
3 market segment. Therefore, we believe that a
4 termination of this order would likely force Agrium to
5 cease production at this facility.

6 Thank you for your consideration of these
7 comments. I'll be happy to answer any questions you
8 may have.

9 MS. SLATER: We will now hear from Mr.
10 Therian LaFleur.

11 MR. LaFLEUR: Good morning. My name is
12 Therian LaFleur.

13 CHAIRMAN KOPLAN: Could you move your
14 microphone, unless there is a problem with that
15 microphone?

16 MR. LaFLEUR: I'm owner and manager of
17 Chastant Brothers, a regional fertilizer dealer
18 located in Lafayette, Louisiana. I have been at
19 Chastant Brothers for 34 years.

20 Chastant Brothers sells fertilizer,
21 including urea, to farmers in the Lafayette area. We
22 also offer fertilizer application service to farmers.
23 We have been in the business since 1933.

24 I appreciate the opportunity to appear
25 before this Commission today to discuss the urea

1 market. I have come here today because I believe it
2 is important for us to maintain urea production in the
3 United States, and I also feel that it is important
4 for the Commission to hear some basic facts directly
5 from someone who is involved in the day-to-day buying,
6 selling, and application of urea.

7 Even though we are a small, independent
8 dealer, I believe our experience is no different than
9 anyone else, even our big competitors. We are
10 fertilizer dealers. We buy urea from CF and other
11 suppliers, including suppliers of imported product.
12 We sell urea to farmers for direct application to
13 crops. We also sell urea blended with potash and
14 phosphate in bulk blends. The farmers to whom we sell
15 urea use it to grow a variety of crops, including
16 rice, wheat, sugar cane, pasture grasses, and sorghum.

17 Although we are regional distributors,
18 Chastant Brothers competes with large distributors,
19 such as Agrilliance and UAP, which is a former
20 subsidiary of ConAgra. Presently, the urea we buy and
21 sell to farmers is granular product because that is
22 largely the product that is available in the U.S.
23 market today.

24 Price is the key to our urea purchase. We
25 would, as we have in the past, purchase prilled urea

1 if the price is right. We buy some of our urea on a
2 prepaid basis, lock in the price for future delivery,
3 but much is purchased in season. When we purchase
4 urea, we generally check several suppliers to see who
5 can provide product at the best price, and please make
6 no mistake: In making purchases, price is very
7 important. Anyone who tells you differently is simply
8 fudging the truth.

9 As long as a product is decent quality,
10 farmers do not care where it comes from. They do care
11 about price. Granular urea is the preferred product
12 in the U.S. market, and it carries a price premium.
13 In my experience, however, prilled and granular urea
14 have been comparable in recent years, making granular
15 the obvious choice, given its better quality.

16 In fact, in preparation for this hearing, I
17 looked back on detailed notes I've kept for the last
18 20 years that contain various urea price quotes I've
19 received from suppliers, such as CF and Mississippi
20 Chemical, for granular and prilled urea. Our records
21 show that when prilled product was available to us, it
22 was, on an average, two to three dollars less than
23 granular. Once I informed the granular supplier of
24 the lower prill price, they were usually more than
25 willing to reduce their price either match the prill

1 price or at least to further reduce the price
2 differential between the granular and the prill.

3 If prilled urea becomes available to us at
4 an attractive price, for example, about \$10 per ton
5 cheaper than granular urea, we would unquestionably
6 switch to prilled urea, as we have in the past when
7 prilled urea was significantly lower than granular.
8 This is even true for blends; that is, even though
9 granular urea is typically preferred for blends, if
10 prills are significantly cheaper, and if the prill
11 size is appropriate, we can and have used prilled urea
12 even in a blend. In terms of usage of prilled and
13 granular urea, there is very little that can be done
14 with granular urea that cannot be done with prill
15 product. Granular is generally considered better for
16 use in both blends, but a good prill will work fine.

17 We have used prilled urea in blends.
18 Because urea is often applied to rice fields before
19 planting by ground application, very small prills will
20 not work, but a decent-sized prill will work
21 perfectly. With these two reservations, there is
22 simply nothing you can do with granular urea that you
23 cannot do with a good prill.

24 I've seen a letter that the Agricultural
25 Retailers Association sent to the Commission in this

1 case. The ARA suggests that prill and granular cannot
2 be applied with the same equipment. As someone who
3 sells and applies fertilizer for a living, I'm here to
4 tell you that this is nonsense. At Chastant Brothers,
5 we use approximately four different types of
6 applicators to apply urea, and there is not a single
7 type of equipment that can be used to apply granular
8 that will not work for prill. The farmers to whom we
9 sell urea product are similarly unrestricted by
10 application equipment and would not hesitate to use
11 prilled urea if the price were reasonably lower than
12 granular.

13 More importantly, because of the fact that
14 distributors like Chastant Brothers as well as farmers
15 will switch to prilled urea if the price is right,
16 granular suppliers will be forced to reduce their
17 price to compete with prills. Granular urea will
18 still command a premium price over prill because it is
19 a better product, but granular suppliers will not be
20 able to maintain a large price differential with prill
21 if they want to remain competitive and maintain their
22 granular sales.

23 Accordingly, if cheaper prilled urea becomes
24 available in the U.S. market in sufficient quantities,
25 distributors and resellers will use this factor to

1 leverage, in negotiation with granular suppliers, to
2 induce them to lower their price. I've done it myself
3 in the past and would do it again.

4 If prilled urea is good quality and
5 available at attractive prices, distributors, dealers,
6 and farmers would unquestionably buy it. Farmers buy
7 urea. They want it at the best price. I want to make
8 sure that you understand the realities of the
9 marketplace. Today, particularly, with the price
10 pressure on farmers, they would be thrilled to have
11 cheaper prills. If this product were available, I
12 would have to buy it from them or pressure CF and
13 other sellers to reduce their granular prices.

14 I hope this is helpful testimony, and I
15 thank you for your attention. I look forward to
16 answering any questions you may have.

17 MS. SLATER: Now, we're going to have a
18 little bit of economic testimony from Mr. Klett.

19 MR. KLETT: Good morning, Mr. Chairman and
20 members of the Commission. My name is Daniel Klett.
21 I'm an economist testifying on behalf of the U.S. urea
22 industry.

23 There are four issues I will address:
24 first, supply/demand conditions affecting the U.S. and
25 world markets; second, a net-back analysis that

1 demonstrates the attractiveness of the U.S. market to
2 Russian and Ukrainian urea producers; third, why
3 underselling is likely with revocation; and, fourth,
4 why the apparently high levels of capacity utilization
5 in 2004 reported by Russian and Ukrainian producers in
6 the aggregate will not be a significant constraint on
7 their urea exports to the United States.

8 Urea pricing in the U.S. market is
9 determined by U.S. supply and demand conditions,
10 which, in turn, are affected by supply and demand
11 conditions in non-U.S. markets. This is true because
12 fairly traded imports are a significant part of the
13 U.S. supply.

14 Since the last sunset review of urea, there
15 have been changes in some key supply side factors,
16 including a reduction in U.S. urea capacity, which, in
17 turn, has resulted in an increase in nonsubject import
18 supply, particularly from Middle Eastern countries.
19 On the demand side, there has been a modest growth in
20 U.S. consumption, generally a 1-to-2-percent growth
21 rate annually.

22 While urea demand is increasing slightly
23 each year in the U.S. and the world at large, the
24 tight market conditions and upward trend in urea
25 prices that has occurred over the last two years were

1 caused primarily by supply side factors, as discussed
2 by Mr. Dietz. Industry analysts uniformly agree that
3 these conditions will not persist into the foreseeable
4 future.

5 For example, Fertecon reports that "delays
6 in the commission of new capacity in the last couple
7 of years have resulted in a tight international
8 market. However, this is likely to change in the near
9 term as new, low-cost urea capacity comes on stream,
10 creating additional competition for Russian urea
11 exports in all its key markets. Fertecon forecasts
12 that the international urea market will move into
13 oversupply in the next few years. Dedicated export
14 capacity for low-cost producers will double between
15 2004 and 2010, to 24 million tons." A June 2005 IFA
16 paper also forecasts a growing supply surplus.

17 For these reasons, I take issue with
18 Respondent's conclusion that strong demand conditions
19 worldwide will continue to absorb Russian and
20 Ukrainian urea production. All parties agree that
21 differences among export markets in the net-back price
22 to the foreign producer or trader at the port of
23 exportation will affect where export volumes are
24 directed. Respondents have focused on conditions in
25 2004 to support their contention that the net-back

1 price for Russian and Ukrainian urea exports to non-
2 U.S. markets is higher than what it is for sales to
3 the United States. However, as I've just discussed,
4 these conditions are not likely to continue going
5 forward.

6 There isn't information available to
7 estimate the net-back price for Russia and Ukraine's
8 urea sales to non-U.S. export markets and the likely
9 net-back price if they had exported to the United
10 States. The net-back price for actual urea exports to
11 non-U.S. markets is reflected in the FOB Baltic and
12 Black Sea prices reported by Green Markets, Fertecon
13 or Profercy. The net-back price for potential urea
14 exports to the U.S. can be calculated by taking the
15 Green Markets prilled urea price at the U.S. Gulf and
16 backing out an importer markup and ocean freight back
17 to the Baltic or Black Sea ports.

18 Our complete analysis on this is in Exhibit
19 12 of our prehearing brief, but it's confidential
20 because it relies on an importer markup from a
21 questionnaire response. However, using these same
22 data but without the importer markup or duty rate
23 adjustment results in net-back relationships over time
24 that are reasonably accurate and which I can present
25 this morning.

1 Exhibit 1 shows these relationships since
2 2000. As you can see, the United States has generally
3 been a more attractive market on a net-back basis than
4 alternative export markets. There have been
5 exceptions, such as periods of time in 2004 and
6 earlier this year, when urea prices outside the U.S.
7 have been higher on a net-back basis due to tight,
8 world-market supply conditions.

9 To give you an example of the current net-
10 back situation, Profercy reports that, on September
11 20th, urea export prices out of the Black Sea --
12 ranged from \$200 to \$207 per metric ton. Prilled urea
13 prices in the U.S. Gulf, as reported by Green Markets
14 on September 19th, averaged \$276 per metric ton.
15 Current ocean freight from the Black Sea to the U.S.
16 Gulf is roughly \$26 per metric ton. However, even
17 with ocean freight at \$40 per metric ton, the net-back
18 price for sales to the U.S. from Black Sea or Baltic
19 ports would be \$236 per metric ton, clearly a more
20 attractive price than the current \$200 to \$207 per-
21 metric-ton price currently being exported from the
22 Black Sea ports to non-U.S. markets.

23 The importer markup and base duty rate
24 differentials also must be factored into these
25 numbers, but these adjustments are generally

1 offsetting and will not significantly change the
2 relationship.

3 In addition, the attractiveness of the U.S.
4 market from Black Sea and Baltic ports is demonstrated
5 by the significant increase in imports of urea shipped
6 from these ports for urea produced in Belarus,
7 Estonia, and Romania.

8 One reason the net-back for sales to the
9 U.S. is now higher than for exports to non-U.S.
10 markets is that the demand in Russia and Ukraine's
11 export markets for prilled urea has declined, pushing
12 down urea prices at Baltic and Black Sea ports
13 significantly over the last four months. Export
14 prices out of the Baltics have dropped from \$269 in
15 mid-May to \$212 per ton in mid-September, or by \$57
16 per metric ton. Similar price declines have occurred
17 in the Black Sea ports.

18 Going forward, Fertecon reported in its
19 September 20th urea futures report that the market for
20 urea exported from Yuzhnyy, which is a Black Sea port,
21 "is still out of balance going forward, however, and
22 further slides in price appear inevitable." Other
23 trade publications have reported urea inventory gluts
24 at Russian and Ukrainian ports necessitating a ban on
25 the movement of urea rail cars from plants to the

1 ports.

2 Regarding likely underselling, in the
3 absence of urea imports in subject countries, the
4 prices into the U.S. associated with urea imports in
5 2005 from Romania and Estonia are excellent proxies
6 for the likely prices of urea imports from Russia and
7 Ukraine. Urea imports from Romania and Estonia of
8 prill are from the same ports of exportation in the
9 Baltic and Black Sea from which urea exports from
10 Russia and Ukraine would be shipped and are exported
11 by the same trading companies that handle other
12 nitrogen fertilizer imports into the U.S.

13 Through July of this year, 130,000 short
14 tons of prilled urea from Estonia and Romania have
15 been imported, with at least an additional 140,000
16 short tons scheduled for delivery through October this
17 year based on industry trade publication information.
18 Regardless of whether this volume is for industrial or
19 agricultural applications, it demonstrates that the
20 U.S. market will accept additional supplies of prilled
21 urea if the price is right. These imports have
22 generally undersold other nonsubject imports to gain
23 access to the U.S. market, as shown in Exhibit 2.

24 Given that the same traders and importers
25 will be approaching urea producers in Russia and

1 Ukraine should the orders be revoked, it is reasonable
2 to infer that they will price prilled urea from
3 subject countries at these levels or lower.

4 In addition, weekly trade publications from
5 Green Markets, Fertecon, and Profercy report FOB
6 prices for Russian and Ukrainian exports to which can
7 be added ocean freight to the U.S. to estimate the
8 likely landed price. The high end of the current
9 Baltic price reported by Profercy is \$205 per metric
10 ton. Adding a conservative estimate of ocean freight
11 of \$40 per metric ton results in a landed price to the
12 U.S. Gulf of \$245 per metric ton, or \$220 per short
13 ton. Green Markets reports U.S. Gulf granular prices
14 of \$270 per short ton, for close to a \$50, or 18
15 percent, price differential.

16 Price relationships between Russia, Ukraine,
17 and other suppliers in third-country markets also
18 provide some information on likely underselling in the
19 United States, and this analysis is contained in our
20 brief.

21 Respondents have repeatedly commented that
22 the capacity in Russia and Ukraine is being fully
23 utilized and use data from 2004 to assert this claim.
24 However, data from one year cannot be reasonably taken
25 as an indication that urea products will not be

1 exported to the United States. Russian capacity
2 utilization in the prior years has not been at high
3 levels. Data from IFA, as well as from Fertecon, show
4 that during most of the last six years, Russian
5 capacity utilization has been in the 75-percent-to-80-
6 percent range. In 2004, there was an increase,
7 reflecting not the opening of new markets or dramatic
8 demand growth but a short-term tightness in
9 international markets for reasons I have already
10 explained.

11 Furthermore, the high aggregate capacity
12 utilization rate in part reflects the fact that there
13 are individual producers with reported capacity
14 utilization rates of over 100 percent. When actual
15 excess capacity is tabulated on a company-by-company
16 basis, and the additional capacity added by EuroChem
17 in 2004 is included, we calculate that in 2004 Russian
18 and Ukrainian producers had excess capacity of over
19 700,000 metric tons. It is clear the Russia and
20 Ukraine have capacity to spare and product to sell.

21 Thank you, and I will be happy to answer any
22 questions you may have.

23 MS. SLATER: Thank you. Mr. Chairman, I
24 know that the Commission would much rather hear from
25 industry people than from another Washington lawyer,

1 so I will try and limit it to 10 minutes -- I know you
2 know that's hard for me -- and briefly touch on maybe
3 one point and leave the rest of your legal concerns
4 for questions.

5 I wanted to talk just for one moment about
6 this prill versus granular issue, and you'll hear, I'm
7 sure, in the responses to questions much more about
8 it, but it's very important for the Commission to
9 recognize that this has been part of the Commission's
10 record of this proceeding since Day One. If you start
11 with the staff report from 1986, of which I have an
12 original copy, -- I will tell you it's yellow -- and
13 look back at the staff discussion, there is a detailed
14 discussion of the differences between prilled and
15 granular urea. The Commission recognized it in its
16 opinion.

17 There have always been these two forms.
18 Granular has always been preferred for certain uses.
19 This was true in 1986 and 1987. It was true in 1995
20 when the Commission looked at these orders and their
21 effect. It was true in 1999 when you did your first
22 sunset review, and the different citations are set out
23 in our brief, but any notion that something has
24 changed dramatically in terms of either the existence
25 of these two forms or the preference for granular or

1 the price differentials, I think, needs to be
2 dispelled right off the bat.

3 Secondly, I want to remind you that the same
4 advocates who are now arguing to you that prilled and
5 granular are so different that competition will be
6 attenuated also asked you, not that long ago, to
7 include all of the nitrogen products as one like
8 product. Whether they are trying to make distinctions
9 between the uses of these two slightly different forms
10 of a prill, they argued a few years ago that you ought
11 to consider urea and UAN solutions and anhydrous
12 ammonia and ammonium nitrate to all be one like
13 product. The Commission correctly rejected that side
14 of their attempt, and I think you need to do the same
15 here on prill versus granular.

16 The only other comment I will make briefly
17 before we turn to questions, and then I would like to
18 reserve the rest of my time, is to urge you to look
19 carefully at the situation that has occurred with
20 respect to the Romanian and Estonian imports. We have
21 mentioned it a number of times this morning, and we'll
22 talk about it more, I'm sure, in questions, but the
23 revocation of those orders was something that the
24 industry felt had to happen. It was time.
25 Circumstances in those countries have changed. But

1 the orders were revoked on December 30, 2004, and in
2 March, the first shipments of prill products from
3 those countries began to come.

4 We've had Romanian, Estonian, Byelarusian.
5 I think there has also been some Lithuanian product.
6 It has been largely prills because those countries,
7 with the exception perhaps of Belarus, have only prill
8 production. It has moved very quickly here. It has
9 had no problem getting into the market, and market
10 intelligence that Mr. Dietz's company has been able to
11 obtain tell us it's competing throughout the
12 marketplace. It's being offered for sale and sold
13 into the fertilizer market and into the industrial
14 market as well.

15 I'm going to reserve further comments for
16 questions and the rest of my time for rebuttal. Thank
17 you for your attention.

18 CHAIRMAN KOPLAN: Thank you, and thank you
19 to each of the witnesses who provided us with their
20 direct testimony this morning. It's extremely
21 helpful. We'll begin the questioning with
22 Commissioner Aranoff.

23 COMMISSIONER ARANOFF: Thank you, Mr.
24 Chairman, and thank you very much to the panel and to
25 all of the witnesses for coming here to speak with us

1 this morning.

2 I do want to start with the granular-versus-
3 prilled issue, and one of the things that I'm hoping
4 that the industry witnesses can help me sort out is
5 we've discussed granular versus prilled, but it seems
6 as though we really need to be discussing both of
7 those forms of the product with respect to the two
8 different end uses, fertilizer versus industrial uses,
9 and our staff didn't ask for, and no one asked them to
10 ask for, data that were broken out both of those ways
11 in the staff report. So I'm hoping that you can help
12 me a little bit, first, by turning to the industrial
13 applications for urea.

14 First, I want to get a sense of what
15 percentage of the U.S. market that is, and I'll ask
16 the witnesses to answer for the market generally, and
17 if it's not confidential, also for your own companies,
18 and then which of the nonsubject imports are also
19 competitive in industrial uses. Is there a difference
20 in industrial uses between granular and prilled? Can
21 you use both? And then the last question will go to
22 the subject imports, whether they are produced in an
23 industrial grade at all. So maybe start with either
24 Mr. Dietz or Mr. Buckley and just go around, if we
25 could.

1 MS. SLATER: I see you've been taking
2 lessons from Chairman Koplan in multipart questions,
3 Commissioner. Maybe I'll ask Mr. Dietz to start with
4 a response.

5 MR. DIETZ: We do manufacture both granular
6 and prill production in our Lima, Ohio, facility and
7 only prill in our Augusta, Georgia, facility.

8 Out of our total market of granular and
9 prill in the U.S., prill would represent about 40
10 percent of our total sales, including what we have
11 from our Trinidad production. So our total market
12 would be about 40 percent in prills.

13 The industrial applications that we sell
14 into are resin producers, as well as pharmaceutical
15 producers. We are the sole supplier to Eli Lilly,
16 manufacturing synthetic insulin in Indianapolis out of
17 our Lima facility, and that's because we have a unique
18 location in Lima, Ohio, where we can serve them in
19 just-in-time inventory with truck shipments to their
20 facility. It's also a high-quality product that we
21 sell from prill, but it's a very small portion -- it's
22 only 10 percent of our prill production out of Lima.

23 The different end uses: There are
24 distinctions. I think the industrial customers tend
25 to prefer a prill product in general, but rest assured

1 that if granular prices were of a sufficient
2 competitive nature with prill, then they would figure
3 out a way to use granular product. The quality
4 distinctions are not sufficient to overcome price
5 differentials. If there is any further clarification?

6 COMMISSIONER ARANOFF: Just, I guess we hear
7 a lot of references here to if the price differential
8 were attractive enough, our customers would switch.
9 Do you have any industrial customers who use a
10 granular product, and has there ever been a price
11 differential big enough to make anyone switch? What
12 would that look like?

13 MR. DIETZ: No. We do not personally sell
14 any granular into an industrial application.

15 Well, yes. As Ms. Slater here reminds me,
16 the pricing is reflective of the granular pricing.
17 What we've been seeing in the marketplace for some
18 time is the indexing of our industrial contracts is
19 based on granular and/or prill. The customer will
20 take the lowest price that he can find and use that as
21 his base for negotiation in pricing with us, so there
22 are references in our contracts to the granular prices
23 as well as to prill prices.

24 COMMISSIONER ARANOFF: Thank you.

25 Mr. Buckley?

1 MR. BUCKLEY: Yes, Commissioner. We produce
2 at Donaldsonville all granular product. We don't
3 produce any prilled whatsoever. Virtually all of our
4 product ends up into the fertilizer market. We do
5 have a small amount of sales that go into the
6 industrial market; however, CF does not directly sell
7 into that market, but from what I understand from our
8 marketing people, we are selling some to a third
9 party, who, in turn, is selling some into an
10 industrial market. What that application is, I'm very
11 uncertain. I'm not really sure what that is, but our
12 primary market is the fertilizer market.

13 With respect to the price differential, that
14 becomes a very key question, and I think Mr. LaFleur
15 commented on it, that it doesn't take much in the
16 agricultural market to switch a fertilizer from a
17 prilled to a granular product.

18 From a farmer's standpoint, a farmer will go
19 to a dealer, for example, and maybe Mr. LaFleur can
20 comment on this better than I can, but he will go to
21 the dealer and say, "I need 160 pounds of nitrogen, I
22 need 60 pounds of phosphate, and I need 80 pounds of
23 potash. That's what I'm paying for."

24 So from a farmer's perspective, he could
25 care less whether it's prilled, whether it's granular,

1 or what the product is; he just wants the nitrogen
2 content. And these farmers, particularly today, with
3 grain prices where they are, are very, very price
4 sensitive and are looking for costs to be as low as
5 possible. So any kind of discount that you can get
6 off of prill, farmers would certainly be happy to
7 switch over to get that price differential.

8 COMMISSIONER ARANOFF: Thank you. Mr.
9 McGlone?

10 MR. McGLONE: Our production from Kenai, the
11 granular urea, is designated for agricultural uses.
12 Our Borger, Texas, facility; about 80 percent of the
13 production is targeted to feed grade, so it is not for
14 crop application. It's a protein supplement in animal
15 feed. So if you combine Kenai and Borger, Texas, you
16 could say that 10 percent of the production is not
17 going directly to crop application.

18 In terms of the price differential between
19 granular and prill, our experience in servicing the
20 Mexican market from Kenai with granular product we're
21 selling there, again, going head to head against
22 Russia prill, is, at best, we could get maybe one to
23 two dollars per ton premium for that granular product,
24 which is less than one percent of the delivered price
25 of the product. So there is not much of a premium

1 that you can get for granular when you're going head
2 to head against prill competition in agricultural
3 markets.

4 COMMISSIONER ARANOFF: Your sales for animal
5 feed; is that considered an industrial application, as
6 we've been using the term here, or is that considered
7 --

8 MR. JUNKER: Madam Commissioner, I'm Joel
9 Junker, counsel for Agrium. I have learned that there
10 is sort of a vague definition of industrial use, and
11 my understanding, to be confirmed by the members of
12 the industry, is that you have effectively industrial
13 use, such as Mr. Dietz has described, where it's used
14 in an industrial and purely nonagricultural
15 applications. The other end of the spectrum is you
16 have a crop fertilizer application, and then you have
17 an agricultural application, such as feedstock, which
18 is agricultural in nature but not a crop application.
19 So I believe it breaks down roughly into those three
20 segments.

21 COMMISSIONER ARANOFF: I didn't quite hear
22 from Mr. McGlone. For this feedstock application, are
23 you selling granular or prill?

24 MR. McGLONE: It's prill.

25 COMMISSIONER ARANOFF: Thank you.

1 MR. McGLONE: It's actually called a "micro-
2 prill." It's a small prilled product.

3 COMMISSIONER ARANOFF: Thank you. Let me go
4 on.

5 There was some attention to this earlier,
6 but I just want to clarify. Ms. Slater was pointing
7 out that this prill-versus-granular issue has been
8 around since the Commission's original investigation
9 and has been looked at before, but it would appear
10 from the data in our staff report that there has been
11 a significant shift in U.S. consumption since the last
12 time the Commission reviewed this order. Does that
13 reflect a shift in demand on the purchaser side,
14 supply? What explains that change?

15 MR. BUCKLEY: When you look at the shift
16 that has occurred, and we've seen granular demand,
17 obviously, increase since the 1986 period, but if you
18 look at the reasons why, it really comes down more to
19 availability of product, not necessarily a preference
20 for a particular product.

21 As I mentioned in my testimony, one of the
22 key things that has happened over the years is older
23 plants have shut down around the United States. Most
24 of those plants were older plants that had the older
25 technology, which is prill technology. Granular

1 technology is a newer form of urea production. So a
2 lot of it has to do with the fact that we have shut
3 down prill plants in the United States.

4 The other aspect is when you look at the
5 import side of the market, what products are coming
6 in? Most of what's coming in, again, is granular.
7 It's product out of the Middle East. That's our
8 largest importing source other than Canada, and Canada
9 basically is part of the U.S. market for all intent
10 and purposes. So it really comes down to a question
11 of availability.

12 Now, if you look at pricing between the two
13 products, and this is really the key reason why you've
14 seen a lot of growth in the granular market and not in
15 the prilled, is they have been priced very closely.
16 If you look at the history of pricing all the way back
17 from 1986 all the way up to recent times, there is
18 very little differential between prilled and granular.
19 So from that aspect, granular does have some better
20 attributes to it. It's a harder product. It's easier
21 to store. It doesn't break down. There are some
22 definite advantages of granular.

23 If there is no difference between the
24 pricing, or very little difference in the pricing,
25 then the customers have bought the granular. But

1 would they buy the prill if the price was more than
2 what the differential has been over time? They
3 certainly would.

4 COMMISSIONER ARANOFF: Thank you very much.

5 CHAIRMAN KOPLAN: Thank you, Commissioner.

6 I neglected to say this. If, when you
7 respond to questions, if you continue to identify
8 yourselves for the record, it will be easier for the
9 reporter.

10 My first question is for the Ad Hoc
11 producers' coalition and Agrium, and this relates to
12 the natural gas issue. I notice that at pages 9 to 11
13 of the ad hoc prehearing brief and in your testimony
14 today, you mentioned the huge impact that sharply
15 rising natural gas prices have had on your urea
16 production cost during the time period of review. The
17 prehearing staff report summarizes the trend in
18 Chapter 5.

19 In addition, staff advises us that since
20 Hurricane Katrina, U.S. natural gas prices have risen
21 sharply, according to Department of Energy data, and
22 are projected to remain at double digits through the
23 rest of 2005 and near those levels through the first
24 quarter of 2006.

25 I also note a story by "CNN Money" Senior

1 Writer Chris Isadore just yesterday when describing
2 the possible impact of Hurricane Rita. He reported
3 that, according to a gentleman named Bob Tippee,
4 editor of the industry trade journal, Oil and Gas
5 Journal, in Houston, that, and I quote, "natural gas
6 prices could see a further spike since so many of the
7 offshore platforms off of Texas produce natural gas,
8 not crude oil."

9 First, please tell me whether any U.S.
10 plants closed temporarily or are projected to close
11 permanently during post-Katrina. I look to the
12 industry witnesses on that.

13 MR. DIETZ: Mr. Chairman, this is Jim Dietz
14 from Potash Corporation. We continue to look at this,
15 and obviously we're concerned about gas prices. We
16 have to weigh it up day by day versus the product
17 prices that we're receiving, and at this point, we
18 have not made any decisions in that regard going
19 forward, but certainly we will continue to review it.

20 CHAIRMAN KOPLAN: What about the other
21 domestic producers?

22 MR. DIETZ: No. Nothing is being closed as
23 a result of the run up in gas prices recently since
24 our Memphis plant in 2003.

25 CHAIRMAN KOPLAN: Is that the same for the

1 rest of you? Mr. Buckley?

2 MR. BUCKLEY: Yes. We have continued to run
3 our plant. We did shut the plant down as Hurricane
4 Katrina was coming on shore. We had our plant down
5 for -- I believe it was a day and a half, and we
6 received no damage to the plant whatsoever and
7 immediately turned it back on again. So from that
8 aspect, we had very little impact of Hurricane
9 Katrina.

10 CHAIRMAN KOPLAN: Mr. McGlone?

11 MR. McGLONE: The same position. We have
12 not shut any production to date, given the ramp up of
13 natural gas prices.

14 CHAIRMAN KOPLAN: Okay. Do you all agree
15 with yesterday's assessment of the possible effects of
16 Hurricane Rita?

17 MR. DIETZ: Again, Jim Dietz. Certainly, we
18 recognize that the potential is there with Hurricane
19 Rita to cause a rise in gas prices, as Katrina did,
20 but, again, we will have to continue to evaluate it as
21 time goes.

22 CHAIRMAN KOPLAN: Do you see a continuing
23 increase in imports of urea from the nonsubject
24 countries due to more limited U.S. production
25 capability and level-to-rising domestic prices? Mr.

1 Dietz?

2 MS. SLATER: Could you repeat the question,
3 please, Mr. Chairman?

4 CHAIRMAN KOPLAN: Sure. Do you see a
5 continuing increase in imports of urea from the
6 nonsubject countries due to more limited U.S.
7 production capability and level-to-rising domestic
8 prices?

9 MR. DIETZ: We continue to see a rise in
10 imports, particularly from Romania and Estonia, as the
11 orders were revoked on those countries. I think as
12 long as the differential exists between the products
13 in the U.S., we will continue to see imports and
14 competition from those countries bringing products
15 into the U.S. It's an attractive market, and it's the
16 largest importer in the world.

17 CHAIRMAN KOPLAN: Thank you, Mr. Buckley.

18 MR. BUCKLEY: Yes, Mr. Chairman. When
19 you're looking at the fertilizer market obviously it's
20 extremely difficult to try to predict where the
21 markets going to go or what future conditions are
22 going to be. That's true not only for the market in
23 general, but also for I think components, gas prices,
24 freight costs. It's very hard to do that.

25 I would venture to say that if the U.S.

1 capacity is forced to close because of undercutting of
2 the U.S. market then obviously imports would increase
3 during that time period.

4 CHAIRMAN KOPLAN: Mr. McGlone?

5 MR. MCGLONE: Yes. Greg McGlone from
6 Agrium. As I said in my testimony, given what we see
7 as announced new capacity coming on stream that
8 capacity has to find a home. It is outstripping the
9 demand significantly, so there's no question in our
10 minds that the imports to the U.S. will increase as
11 that capacity tries to find a home.

12 CHAIRMAN KOPLAN: Thanks.

13 Let me ask, has any of you announced
14 production cutbacks in the past 30 days because of
15 rising natural gas prices and availability or for
16 other reasons?

17 Mr. Dietz?

18 MR. DIETZ: We have not announced as such,
19 but we have had to cut back at our Lima plant
20 temporarily because of an availability situation. The
21 gas supplying companies have just limited our supply
22 for the time being.

23 CHAIRMAN KOPLAN: Could you document that
24 posthearing?

25 MR. DIETZ: Yes, we could.

1 CHAIRMAN KOPLAN: Thank you.

2 Anyone else?

3 Mr. Buckley?

4 MR. BUCKLEY: No, we have not. The only
5 outage we had as I mentioned is actually during the
6 hurricane period. You know, I haven't been in the
7 office for the week so I'm not sure if we have had any
8 gas curtailments because of gas just being not
9 available, but as far as I know, no, we've had no
10 curtailments.

11 CHAIRMAN KOPLAN: Mr. McGlone?

12 MR. MCGLONE: Yes. The same. We have not
13 announced any production cutbacks.

14 CHAIRMAN KOPLAN: Thank you all for that.
15 Let me turn to the issue of market segmentation. I
16 know we're going to be talking about that a fair
17 amount today. Again, I'd like to hear from the
18 industry witnesses. I know that solid Urea is
19 produced in both granular and prill forms for
20 fertilizer and industrial use.

21 I believe it's well-known that nearly all
22 the subject product is in prill form while just the
23 opposite, domestic solid Urea product is dominated by
24 granular. According to their website Stamicarbon if
25 I'm pronouncing that correctly, a major Urea design

1 firm, prills are cheaper to produce than granular.
2 That's in our staff report, Chapter 1, page 13.

3 Mr. Dietz, or anyone else, could you
4 estimate for me the production cost differential
5 between prills and granular? In doing that I don't
6 know whether you need to distinguish between prills
7 and microprills, but I'm just curious what that
8 distinction is with granular.

9 MR. DIETZ: I would be happy to, Mr.
10 Chairman. At our Lima facility where we produce both
11 products the difference in cost at production of
12 granular Urea versus prill Urea simply on the variable
13 cost basis is less than \$1 per ton differential. It
14 would be the same -- in our case we used to produce
15 thin grade Urea there, we no longer do that right now
16 at Lima, but when we were the cost was the same as the
17 prill so there's no difference in cost differential.

18 CHAIRMAN KOPLAN: Thank you for that. I'd
19 like the domestic industry witnesses to estimate for
20 me the aggregate percentage of granular product made
21 for industrial use. I assume it is not very small. I
22 make that assumption in part because I note the
23 closure of two major prill facilities, PCS' is at
24 Memphis, Tennessee, and Terra's is at Donaldsonville,
25 Louisiana, during the current period of review.

1 I note that Agrium in its prehearing brief
2 acknowledged at page 5 that granular Urea is generally
3 considered preferable for direct agricultural
4 application because of its physical integrity. I
5 assume that refers to the fact that it has higher
6 impact strength and crushing strength, and prill is
7 particularly important in product handling, storage
8 and bulk transportation.

9 So could you all estimate for me the
10 aggregate percentage of granular product that's made
11 for industrial use? Any one of the domestic
12 witnesses?

13 MR. BUCKLEY: Mr. Chairman, I don't think I
14 know the answer to that.

15 CHAIRMAN KOPLAN: I can't get into
16 individual companies numbers because that would BPI.
17 If it's easier to do that for me posthearing I would
18 certainly welcome that, but I didn't know whether
19 anyone could give me an estimate on the aggregate.

20 Ms. Slater?

21 MS. SLATER: I think, Mr. Chairman, one of
22 the reasons that the industry witnesses are having
23 some trouble responding is related to a question that
24 came up earlier. There's a little bit of a fuzz
25 between what's defined as the industrial and the

1 fertilizer market.

2 The industrial market when we talk about it
3 will include things like feed grade, which is
4 agricultural. Also, Mr. Dietz told me yesterday they
5 consider industrial the product that goes into their
6 lawn and garden fertilizer, which I know most of us
7 wouldn't consider industrial. We think of it as our
8 one agricultural experience.

9 So I think it's a little bit difficult to
10 sort that out. I think you will get agreement and Mr.
11 Morgan did say this, I hate to agree with him, but I
12 think he will get agreement that in general industrial
13 uses are served by prill product, and in general today
14 most of what's put down on the fields is granular, if
15 that's helpful at all.

16 CHAIRMAN KOPLAN: The vast bulk of domestic
17 production you would agree is granular?

18 MS. SLATER: Well, I think that the data in
19 the staff report still shows that roughly one-quarter
20 to one-third of U.S. production continues to be prill
21 and of course if you take --

22 CHAIRMAN KOPLAN: Actually, I thought it was
23 somewhat less than that, but go ahead.

24 MS. SLATER: No. It's about in the 25 to 30
25 percent range of U.S. shipments. I don't want to sort

1 of slice and dice numbers too much, but if you were to
2 discount from that Agrium's export capability and just
3 look at U.S. production design for the U.S. market of
4 course that number would go up considerably because
5 Agrium's export plant there in Kenai is granular.

6 CHAIRMAN KOPLAN: I could be wrong on this,
7 but my recollection was that you're referring to
8 published reports, but I thought I read that our staff
9 report for the last year that data was available,
10 which would have been 2003, it was about 15 to 20
11 percent not one-third, but I'll go back and check
12 that.

13 MS. SLATER: The questionnaires that went to
14 U.S. producers and from which we got very high
15 coverage rates and Mr. Klett, who really knows this
16 data well will correct me, asked for breakdowns from
17 U.S. producers of shipments by prill versus granules
18 and there was roughly, I don't want to use a
19 confidential number, but 25 to 30 percent was in the
20 prill category.

21 CHAIRMAN KOPLAN: Thank you.

22 Vice Chairman Okun?

23 VICE CHAIRMAN OKUN: Thank you, Mr.

24 Chairman.

25 Let me join my colleagues in welcoming all

1 of you here this morning to testify and to answer
2 questions. Appreciate your willingness to be here and
3 help us better understand the industry. Let me I
4 think start on the demand side and help me out.

5 According to our staff report and in the
6 production we have or the responses we have many
7 responding producers, importers and purchasers
8 indicated they anticipate an increase in Urea demand
9 both because of increased agricultural production and
10 the further substitution away from substitute
11 products.

12 So I wondered if the producers here could
13 help me understand, one of the points the Respondents
14 make is there is this substitution away from some of
15 the other fertilizer type products and towards solid
16 Urea, and I wanted to know, and actually Mr. LaFleur
17 might be a good person to talk about that, what do you
18 see out there in terms of what people are buying and
19 whether there's going to be increased demand on the
20 solid Urea side, whether it be aligned with the
21 estimates we have?

22 MR. LAFLEUR: Yes, ma'am. Therian LaFleur,
23 Chastant Brothers in Lafayette. There is an increased
24 demand for Urea, whether it's dry or prill. Farmers
25 are switching more to a dry Urea, and yes, we have

1 seen increased demand for Urea.

2 VICE CHAIRMAN OKUN: Can you explain from
3 your perspective why that is? Is that because it's
4 harder to handle the ammonium nitrate or that there
5 are restrictions that might be placed on it?

6 MR. LAFLEUR: Well, yes. The ammonium
7 nitrate, most dealers do not want to stock it anymore
8 because of the restrictions and that's a big factor in
9 some of that. Also, anhydrous ammonia with some of
10 the problems handling it or the theft of anhydrous
11 ammonia in the drug trade has taken some dealers away
12 from it.

13 VICE CHAIRMAN OKUN: I don't know if
14 producers could comment in terms of looking at
15 worldwide demand? I know that you've made comments
16 today and actually, Mr. Klett, you had I think
17 referenced a couple of studies and I think you were
18 talking about more recent data than what we have in
19 the staff report.

20 I might be fair to comment on some other in
21 terms of what the worldwide demand and supply
22 situation is going to be. I assume you're going to
23 submit those for posthearing?

24 MR. KLETT: We will submit those forecasts
25 with regard to future world and U.S. supply/demand

1 conditions.

2 VICE CHAIRMAN OKUN: Okay. Maybe you could
3 help me since you've had the benefit of reading them
4 and I haven't yet. In terms of what they see on the
5 world demand side in the next few years, let's say
6 2005-2007, what are they saying about that? I mean,
7 is there also something going on overseas that would
8 indicate there's going to be increased demand?

9 MR. KLETT: Well, you may have some year-to-
10 year fluctuations depending on crop conditions and
11 things of that nature, but generally crop Urea demand
12 long-term controlling for some of these year-to-year
13 fluctuations there is I think relatively close
14 agreement that the U.S. market growth is in the range
15 of one to two percent annually per year, and that
16 markets outside the U.S. the growth trend is a little
17 bit higher, in the range of say three percent
18 annually.

19 I think those forecasts typically consider
20 some of the factors that Mr. LaFleur noted with
21 respect to some of the advantages for Urea over some
22 of the other nitrogen fertilizers and why there might
23 be some switching. If you look at nitrogen fertilizer
24 consumption historically there's been some of that
25 switching.

1 Urea has taken over some end share away from
2 other nitrogen fertilizers, but the other nitrogen
3 fertilizers are still a significant part of the U.S.
4 market. I mean, there hasn't been a wholesale switch
5 from other fertilizers to Urea.

6 VICE CHAIRMAN OKUN: I think one of the
7 things Mr. Morgan had observed in his opening
8 statement and I wanted you to comment on was based on
9 what you've said in the testimony there does seem to
10 be agreement on a tight market in 2004, and that where
11 there may be disagreement is what's going to happen in
12 the recently foreseeable future with respect to world
13 supply/demand.

14 What you've said and at least what we have
15 in Table IV-10 on projected world data to the extent
16 what you're saying that this tight supply situation is
17 going to change, it's not because demand is going down
18 it's because of the capacity that's going to be coming
19 on line.

20 I have a few producers shaking their heads.
21 That would be how you would describe it? It's really
22 the capacity coming on line as opposed to demand? No
23 one is saying it's going to down.

24 Mr. Dietz?

25 MR. DIETZ: You're saying that demand is not

1 going down?

2 VICE CHAIRMAN OKUN: Not going down, but in
3 terms of looking forward why you would now say there's
4 going to be a glutch worldwide.

5 MR. DIETZ: In general we think worldwide
6 the demand will continue to grow. In the U.S. in
7 particular market demand will fluctuate depending on
8 what the grain prices are and the acreage being
9 planted. It will average one to two percent we think,
10 but there will be peaks and valleys in that one to two
11 percent.

12 The big impact on the supply side of the
13 equation is the additional capacity. As Mr. Buckley
14 had in his comments many projects have already been
15 announced worldwide, and we continue to track those,
16 and there are a number of those and that's why we
17 think that coming into the future there will be
18 significant increased supply outstripping the demand
19 side.

20 VICE CHAIRMAN OKUN: Help me out. I think
21 all of you are observers when you have a world market
22 like this. I used to work for the Alaskan Center,
23 Senator McCowskey, so I have some familiarity with the
24 Kenai facility.

25 If you look at the numbers that are

1 projected for natural gas prices, and in the most
2 recent report we have you've got double digit numbers
3 on natural gas, does that make it more likely that the
4 natural gas projects that are scheduled to come on
5 line are less likely and is there a trade-off in where
6 countries decide to put their resources on?

7 If you've got oil production running high
8 and oil costs going high how much is the cost to burn
9 off your gas versus take your gas out somewhere else?
10 Some of these projects as I've understood it over time
11 are influenced by the relationship between the oil and
12 gas markets.

13 So can anyone help me out in how do I
14 evaluate the future and how are some of the industry
15 forecasts evaluating that in terms of how likely it is
16 that these projects are going to come on line?

17 MR. BUCKLEY: Glen Buckley from CF
18 Industries. As far as the new projects coming on line
19 it takes two to two and a half years to bring a
20 project on stream, so by the time you get the
21 engineering done, start construction, it's a long
22 period of time.

23 Typically any type of short-term
24 fluctuations in either market prices or gas prices
25 really don't influence that timeframe and the plants

1 will continue to come on stream.

2 As far as the new capacity and the influence
3 that gas or market prices may have on that most of the
4 capacity that's coming on stream that's projected to
5 come on stream by Fertecon and British Sulfur, the
6 projects that are considered firm, a large block of
7 the capacity is coming on in the Middle East and a
8 large block of the capacity is coming on within China.

9 In the case of China, they don't follow
10 market economics and they're going to build their
11 plants as the five year plan says they're going to.
12 As far as the Middle East, they have the lowest gas
13 prices in the world and those plants are going to come
14 on stream.

15 So there's really no reason to think that
16 there's either going to be delays or any other
17 differences in the plants coming on stream from what's
18 been projected by the major consultants in the
19 industry.

20 MS. SLATER: Commissioner Okun, just to
21 point out in Exhibit No. 2 to our prehearing brief
22 there is a report from Furticon which is essentially a
23 study that pulls together a lot of their other very
24 prolific information about Russia, but one of the
25 things, we asked them to give us some of their most

1 recent forecasts of the various plants and there's
2 actually a listing of all the plants that are coming
3 on stream and the timetable for that.

4 VICE CHAIRMAN OKUN: I did look through
5 that. Again, to the extent that there are additional
6 ones that are coming out I think they'd be helpful for
7 posthearing because, again, I think even the natural
8 gas prices have changed. The forecasts have changed
9 in the last month and probably might change even more
10 after this weekend.

11 Well, I'm not sure I have time to ask my
12 next question. I see my yellow light's on, so I'll
13 just wait for the next round, Mr. Chairman.

14 CHAIRMAN KOPLAN: Thank you.

15 Commissioner Hillman?

16 COMMISSIONER HILLMAN: Thank you.

17 I, too, would join my colleagues in
18 welcoming all of you and thanking you for the time
19 that you've taken to be here to testify this morning.
20 We appreciate it. I hope I can close out at least a
21 couple of my questions or thoughts on this prill issue
22 just to make sure I understand it.

23 I think I heard in the testimony in response
24 to Commissioner Aranoff's question that basically all
25 industrial uses are prill, there's no granular that's

1 sold into the industrial markets, industrial end uses?

2 MS. SLATER: I'll start and then maybe let
3 them finish. As I hear it I think it would be wrong
4 to say that all industrial uses are prill, that by and
5 large industrial users have prill. I think it would
6 be an overstatement to say there's no granular product
7 that goes into the industrial market.

8 I don't know if Mr. Dietz wants to confirm
9 that for you.

10 MR. DIETZ: Yes. I think in answer to the
11 question my remarks in answer to the previous question
12 that I said that none of our granular production was
13 going in the industrial market. Virtually it's all
14 prills for us. Just to clarify we do sell granular
15 into the lawn and garden market, we do sell some into
16 those kind of applications, but in general not into
17 resin producers or other industrial applications.

18 COMMISSIONER HILLMAN: Part of it is I'm
19 trying to make sure I understand on the prilled
20 product whether there are significant physical
21 differences or any other differences in the products
22 the prilled product that's going into industrial, as
23 opposed to feed, as opposed to fertilizer.

24 I clearly heard from Mr. McGlone that the
25 product that they're selling into the feed market is a

1 microprill, which I assume the only distinction there
2 is the size of the individual prill. Is that correct?
3 There's nothing else different about it?

4 MR. MCGLONE: That's correct. It's just the
5 size. It's a 75 SGN compared to a typical prill
6 imported would be around 200.

7 COMMISSIONER HILLMAN: From a cost of
8 production standpoint is it more costly to produce a
9 microprill than a standard prill if you will?

10 MR. MCGLONE: No. Chemical content is the
11 same.

12 COMMISSIONER HILLMAN: Then from a price
13 standpoint do the microprills sell at a premium over
14 the standard prills?

15 MR. MCGLONE: No.

16 COMMISSIONER HILLMAN: Okay. Then I guess I
17 would like to try to understand the distinction that I
18 see in our data because we priced for our pricing
19 table two products, a prill product and a granular
20 product, and consistently throughout the entire data
21 series the prill product is selling at a fairly
22 substantial amount over the granular product.

23 So our pricing data, again, that we've
24 collected from questionnaires shows me that prill is
25 somewhere between 20 and I don't know -- is more money

1 than the granular and yet everything you've told me
2 that I've heard is no, no, no, granular is the better
3 product, granular is the premium, whether it's \$2 to
4 \$3 a ton or some other differential that's been talked
5 about, that the granular product is the premium
6 product.

7 How do I square these two data sets?

8 MR. KLETT: Commissioner Hillman, this is
9 Dan Klett. As I have access to your pricing data and
10 without divulging anything confidentially, but in
11 general the prills can be sold into the agricultural
12 or fertilizer applications and prills can also be sold
13 into industrial applications.

14 I think when the witnesses are talking about
15 the discount of prilled relative to granulated as Mr.
16 Buckley has, and he's primarily in the fertilizer
17 market, he's talking about that differential in the
18 fertilizer market.

19 In the industrial market the prices for
20 prilled on average tend to be higher in part because
21 you have data from PCS and they sell a specialty prill
22 for pharmaceutical application so that your average
23 prill price because it's heavily weighted in your data
24 to the industrial side of things is on average higher
25 than the granular price which is in the agricultural

1 market.

2 If you take your prilled pricing and you
3 look at it company by company there are some things
4 that come out that I think further can explain this
5 distinction and we'd be happy to go into that in our
6 posthearing brief.

7 COMMISSIONER HILLMAN: Mr. McGlone, since
8 you're doing the microprills for feed, again, are you
9 getting a better price for that product than what you
10 understand to be the prills being sold into the
11 fertilizer market?

12 MR. MCGLONE: We have to price feed stock
13 benchmarked against what the NOLA price is for Urea
14 which is predicated on agricultural pricing. So the
15 answer is no. We have to price it against the
16 agriculture benchmarks.

17 COMMISSIONER HILLMAN: Okay. I was only
18 wondering whether it was the speed issue, but you're
19 saying it's really more the pharmaceutical and other
20 more specialized applications of the prill product
21 that is pushing the pricing data that we have up, is
22 what I hear you saying, Mr. Klett.

23 MR. KLETT: I think that's a factor that's
24 leading to the average price differential you are
25 seeing. Yes.

1 COMMISSIONER HILLMAN: The only physical
2 differences in the product is this micro versus other
3 prill? There's no other physical differences
4 depending on end use? I mean, I sort of was hearing
5 Mr. Dietz say that the product that he's selling to
6 Eli Lilly is more of a purified or a more refined
7 product, but I just want to make sure I understand it.

8 Are there physical differences in the
9 products being sold into the industrial market versus
10 those that would go into fertilizer?

11 MR. DIETZ: The difference between prill and
12 granular, there are physical structural --

13 COMMISSIONER HILLMAN: No. Between prill
14 and granular I understand, but I meant --

15 MR. DIETZ: Between prill and prill. I'm
16 sorry. Our prill product from Lima that we
17 manufacture is formaldehyde free. We do not use
18 formaldehyde to help the flowability of the product or
19 keep it from sticking, so therefore it is more
20 appropriate for reagent grade type applications,
21 although this is a small percentage of our total
22 industrial business.

23 We also sell into the swimming pool chemical
24 manufacturers and so forth as well for industrial
25 applications, but structurally, chemically, there is

1 no distinction between the product.

2 COMMISSIONER HILLMAN: I appreciate that.

3 Mr. McGlone, if I can go to you on this
4 issue of the Russian producers because as I heard your
5 testimony you're saying that the Russian producers,
6 the concern is that they maximize their production
7 regardless of demand and therefore they're going to
8 keep shipping notwithstanding whatever demand is
9 doing.

10 I have to say, though, when I look at our
11 staff report it shows a pretty high degree of
12 variability of capacity utilization in Russia, so I'm
13 trying to understand how I square the issue that if
14 the Russians are in fact changing their capacity
15 utilization pretty significantly how is that
16 consistent with the notion that they're simply going
17 to keep pumping it out regardless of demand?

18 MR. MCGLONE: Greg McGlone here. Our
19 experience is that the only modifications we see in
20 the marketplace for Russian production is they may
21 place more of their production to ammonia and not
22 convert it to Urea if they can achieve higher margins
23 in ammonia.

24 We haven't experienced many plant shut-ins
25 or curtailments based on global market factors. It

1 will be a product decision between Urea and ammonia
2 because you have to make ammonia anyway in order to
3 make Urea.

4 COMMISSIONER HILLMAN: Then if we can go to
5 this issue of the shift to granular. Is it a global
6 trend or is it largely a U.S. trend? There's a U.S.
7 preference for a granular product or is everybody in
8 the world shifting to granular?

9 MR. BUCKLEY: In the U.S. market as I
10 mentioned in my testimony there's not necessarily a
11 preference for granular over prilled, it's a matter
12 more of availability and pricing than it is as a
13 shift. Worldwide if you look at the trend, for
14 example in China, which is the fastest growing market
15 in the world in terms of demand, most of the capacity
16 they're bringing on stream is granular product.

17 In fact when you look at new capacity coming
18 on stream worldwide it is granular, not prilled
19 product. So in general the trend over the long-term
20 will continue to be towards granular product.

21 COMMISSIONER HILLMAN: I'm just struggling
22 with why that isn't demand driven. In other words if
23 you're building a new plant, and as I heard the
24 testimony in response to the question from Chairman
25 Koplan it is actually costlier to produce a granular

1 product, if the market has no preference why not build
2 new prill plants rather than new granular plants?

3 MR. BUCKLEY: When you look at the
4 characteristics of granular versus prilled, granular
5 is easier to store, handle, it's harder, you get less
6 dust. From a producer's standpoint, for example in
7 our company the granular product is a very nice
8 product to handle and a very nice product to store
9 where a prill product can break down over time and
10 storage.

11 So from the standpoint of storing and
12 handling granular is a better product. From the
13 standpoint of the ultimate customer in the U.S. market
14 for example prill versus granular, it's really not
15 going to make any difference to him.

16 MS. SLATER: If I just maybe could add one
17 thing to that, Commissioner Hillman, and that is that
18 this issue of the preferences here, and what's
19 happening internationally and the cost difference, I
20 know there was something added to the confidential
21 record recently involving this issue of the cost of
22 production.

23 The information that was added by the staff
24 indicates that comment from the Stamicarbon website
25 doesn't really go to the cash cost of production of

1 prill versus granular, it had to do with the
2 construction of a prill plant versus a granular plant.

3 So building a prilling tower which is a
4 relatively -- I don't know if it would be helpful for
5 you to have somebody explain sort of the difference
6 between how you produce prills and granules, but the
7 front end of it is all the same, producing the hot
8 liquor is the same.

9 Putting up a prilling tower through which
10 you physically drop this down and the little droplets
11 cool as they hit the bottom as opposed to a much more
12 sophisticated granulation bed, and there's different
13 types, it's more expensive to build the granulation
14 piece than a prilling piece if you're building a new
15 plant.

16 As Mr. Dietz was saying in terms of day-to-
17 day ongoing costs there's very little cost in terms of
18 what your cash cost is producing day-to-day, a prilled
19 or a granular form.

20 On this side something I hope the Commission
21 will keep in mind in terms of the U.S. consumption and
22 whether it's a demand pull for granular or a supply
23 push is that you have to keep in mind that as I said
24 most of the U.S. prill plants, many of them have
25 disappeared and much of the supply coming into the

1 U.S. is granular.

2 The largest suppliers in the world of
3 product, Russia, Ukraine and until recently other FSU
4 suppliers, have not been sending product here because
5 of the anti-dumping orders. So the shift over the
6 last 20 years is related to the orders in the sense
7 that supply has been unavailable.

8 I think what you're hearing from Mr. LaFleur
9 and others that when it does become available as it is
10 from Romania and elsewhere it will be taken
11 immediately still at a discount required because it's
12 not as good a product, but it will be taken.

13 COMMISSIONER HILLMAN: I appreciate that
14 answer.

15 Thank you.

16 CHAIRMAN KOPLAN: Thank you, Commissioner.
17 Commissioner Pearson?

18 COMMISSIONER PEARSON: Thank you, Mr.
19 Chairman.

20 I'd like to welcome this panel. It's always
21 interesting to deal with a product that at one time I
22 actually knew a little something about. I have to
23 confess, though, I don't recall ever applying neat
24 Urea. I handled it often in blends, but where I was
25 farming we had a strong preference for anhydrous

1 ammonia.

2 That was in the days before people were
3 swiping it to make elicited materials out of it, and so
4 you didn't have that concern it was only the concern
5 about handling it safely, which I'm sure remains an
6 issue. I'd also had some dealing with the UAN
7 solutions. I don't know why we never appreciated
8 solid Urea the way some people do, but I'm
9 appreciating it now.

10 Let me shift gears and actually ask a
11 question. There's been a lot of political evolution
12 in Russia and Ukraine since these orders went into
13 effect.

14 Now, at that time they were both centrally
15 planned economies or they were part of the same
16 centrally planned economy I suppose would be how to
17 look at it, and I assume that U.S. law didn't allow
18 bring a countervailing duty case and so it was brought
19 initially as anti-dumping.

20 In the hypothetical circumstance in which
21 this order were to be revoked and there was to be
22 import coming in that proved injurious or that was
23 seen to be injurious would the industry consider
24 bringing a case again this time as countervailing
25 duty?

1 Because the problem here as I understand is
2 the government policy regarding pricing of natural
3 gas. Sorry for the long question.

4 MS. SLATER: That definitely sounds like one
5 I have to field. I try not to do that too much. Very
6 interesting question, Commissioner. I think that
7 obviously things have changed and I know that premise
8 is not what you're asking about. There are very
9 interesting issues about the particular structure of
10 the gas pricing into gas plants and the way through
11 which it's handled.

12 If you've had a chance to look at the report
13 that's attached to Exhibit No. 2 to our prehearing
14 brief it has a very fulsome discussion of the
15 relationship between Gazprom between the Russian
16 government and Gazprom and the Russian fertilizer
17 producers.

18 I can't say to you yes or no we would
19 immediately show up with a petition. We're hoping
20 frankly that this process never has to happen again,
21 but I can tell you that's always something that we've
22 looked at carefully. Untangling the factual web and
23 the relationships that would be relevant to that kind
24 of a proceeding is very difficult.

25 The transparency is less than close to

1 something you might like to see and that's true with
2 respect to Gazprom generally, but particularly when it
3 comes to its various holdings and involvement, so very
4 difficult.

5 Is that something we've thought about?
6 Certainly. Is it something that we could give you an
7 answer on? No. I think not.

8 COMMISSIONER PEARSON: Of course some of
9 these issues are more under the purview of commerce
10 than here at the ITC, but as a condition of
11 competition I'm just interested in how the unfair
12 pricing is working its way into the world market.

13 Would it be fair to say that you're not
14 seeing evidence that the firms themselves have so much
15 pricing power independent of the low gas price? That
16 they're doing things that would be considered dumping
17 in a classical sense?

18 MS. SLATER: There's a combination of
19 factors which are continuing to create the situation
20 that we've had ongoing since the mid-1980s and one
21 very significant part of it is the gas pricing.

22 So overall on a macro basis what it means is
23 we have plants operating in Russia and in Ukraine
24 which probably if you look at modern economics
25 shouldn't be. Either by their location or by their

1 age and their efficiency really are not competitive in
2 the export market, but they continue to export.
3 That's one thing.

4 There's a second level of issues which
5 arises because of the relationships of many of these
6 plants to Gazprom. Gazprom is required to provide a
7 certain amount of gas, a defined amount of gas for
8 industrial use to the domestic market.

9 They are not happy about it, they speak out
10 actually publicly about that fact and they're required
11 to charge a certain rate which is far below what they
12 get for that gas when they export. So part of what's
13 happened is that by having ownership in nitrogen
14 plants they're able to better monetize the gas that
15 they're required to supply into the domestic market.

16 For them it's not so much trying to maximize
17 the profitability in terms of what you could get by
18 making fertilizer, but simply to improve on what you
19 could do if you were simply getting return on the gas.
20 I don't know if I'm explaining that clearly, but it's
21 a way for them to get something more for the gas than
22 they would just for the gas.

23 So that's influencing the way the producers
24 are interacting in the world market and their
25 production and export decisions. So there are those

1 two things. Then in addition there are Russian
2 producers who I think are very much interested in
3 particular cases with simply maximizing volumes, and
4 dealing with traders and continuing to maximize cash
5 flow on a hard cash basis.

6 COMMISSIONER PEARSON: How similar are the
7 two industries in Russia and Ukraine? Are the
8 Ukrainians manufacturing Urea out of Ukrainian natural
9 gas or is that natural gas coming from Russia?

10 MS. SLATER: A significant portion of the
11 gas is coming from Russia and Ukraine also has supply
12 that they purchase from elsewhere. Much of the gas
13 that comes into Ukraine comes as a barter if you will
14 or payment in exchange for access to pipelines through
15 Ukraine into Europe, so it is costless gas if you
16 will.

17 There's no price other than the price of
18 access to the pipeline associated with it, and then
19 the government in turn can price that to its industry.
20 There was a very interesting quote recently from a
21 senior Ukrainian official that I think we included in
22 our prehearing brief.

23 When asked about reforming their energy
24 market he specifically said we couldn't do that or our
25 producers couldn't compete in the world market. So

1 there's very much a similar sort of government policy
2 of keeping those prices to industry low in Ukraine.

3 COMMISSIONER PEARSON: Okay. So based on
4 what is known by the Ad Hoc Committee about the two
5 industries in Ukraine and Russia there is no simple
6 way to differentiate between the two? It's hard to
7 split those two and say you should treat one industry
8 differently from the other at least at this point in
9 time?

10 MS. SLATER: I think everyone would agree
11 with that based on what we know about the Ukrainian
12 plants. I will say that we have information that one
13 of the Ukrainian plants is constructing granulation
14 capability, so that's one factor which tells us that
15 they are like Russia very export oriented and are
16 looking to be able to create that.

17 Stamicarbon actually has quite a bit of
18 information on its website about a project in Belarus
19 and there's some information we've provided to you
20 about what's happening in Ukraine on that score.

21 COMMISSIONER PEARSON: Is natural gas
22 pricing being addressed in the negotiations regarding
23 accession of Russia and Ukraine to the World Trade
24 Organization?

25 MS. SLATER: That has been a very prominent

1 issue for both the EU and for the U.S. negotiators. I
2 know we put references, I don't know whether there are
3 copies. We'd be happy to provide you hard copies in
4 the posthearing brief.

5 There was actually an informal agreement
6 between the EU and Russia which came out of those
7 accession negotiations where the Russians, not as part
8 of their accession commitments, but separately
9 undertaking to improve their gas pricing. It's been a
10 tremendous issue.

11 On this side our negotiators and the
12 industry that's been working closely with them have
13 been pushing Russia. That's probably one of the
14 toughest issues that we have, which is reform of
15 natural gas pricing and reform of the energy markets
16 in Russia.

17 There was a letter which again was
18 referenced, I don't know if we actually gave you a
19 copy, we'd be happy to, which Senators Baucus and
20 Grassley sent to USTR recently outlining what they
21 thought were the most important issues in the Russian
22 accession and energy reform was one of them.

23 COMMISSIONER PEARSON: Well, I have some
24 more questions that aren't entirely dissimilar from
25 these, but given that the light's changing let me pass

1 at this point.

2 Thank you.

3 CHAIRMAN KOPLAN: Thank you, Commissioner.

4 Commissioner Aranoff?

5 COMMISSIONER ARANOFF: Thank you.

6 I wanted to start by following up on a
7 question that Vice Chairman Okun was asking about
8 planned and projected increases in global production
9 capacity for Urea.

10 Sometimes when the Commission looks at
11 industries we see a case where demand is sort of
12 growing slowing but steadily based on increases in
13 population or things of that sort that are always
14 going to sort of be growing, but where because of the
15 optimum size for construction of a plant supply tends
16 to leap up so that you have a cycle of periods where
17 there's very tight supply, and then a bunch of plants
18 come on line, and then there's ample supply and prices
19 go down and it's a continuous cycle.

20 Is that the kind of thing that we see in the
21 Urea industry and is that why supply was so tight in
22 2004 and all these plants are now going to come on
23 line? Has that been a cycle or is that not the way
24 that this market works?

25 MR. BUCKLEY: Glen Buckley from CF

1 Industries. No. That is the history of this
2 industry. It's the same type of process that you just
3 described. If you look at demand over a long, long
4 period of time within the fertilizer industry it has
5 grown at a fairly steady rate.

6 We have seen times where demand is a little
7 bit higher and then it will correct itself within a
8 few years and we stay along that same growth trend.
9 So you're exactly correct. In this industry when you
10 do bring on a world scale plant you're talking a very
11 large amount of product that comes on at one time, so
12 we do have that cyclical nature in the business.

13 With respect to 2004 there was quite a few
14 unusual circumstances that happened in the industry
15 that tightened the supply/demand balance. One of them
16 I believe Mr. Dietz commented on was what happened
17 with China. China in 2003-2004 time period they were
18 exporting as much as four million tons of capacity
19 into the world market.

20 Now, total world trade in Urea is roughly 28
21 million tons, so that's a very large percentage of
22 world trade. They came out in the beginning of 2005,
23 to ensure that they would have enough product for
24 their own domestic market they decided to put on
25 restrictions in the form of tariffs on exports.

1 When you got to June of this year that
2 tariff went up to 32 percent and that effectively
3 blocked Russian product from coming into the world
4 market. Incidentally there was quite a bit of
5 discussion and I believe most of the analysts in the
6 industry agree that tax will be lifted, at least
7 reduced significantly November 1 and possibly
8 completely eliminated by the end of the year.

9 In addition to that we also saw delays in
10 new capacity that was supposed to come on stream. The
11 Oman plant had difficulties coming on stream. They
12 couldn't get it up and running right away. We had
13 problems with the Numai plant in Vietnam and there
14 were new capacity additions that did not come on
15 stream as expected, so that supply that should have
16 been in the market and it wasn't in the market.

17 On top of that we saw just an unprecedented
18 number of unexpected plant outages due either to
19 mechanical failures or to other problems. For example
20 in Venezuela where you had civil unrest natural gas
21 fields had to be shut down and so the new plants that
22 were in Venezuela couldn't operate and they were down
23 for an extended period of time.

24 You also had a similar type of a situation
25 where civil unrest shut down the gas fields in

1 Indonesia. So those plants which normally would have
2 been exporting into the world market, they couldn't
3 export either. Then on top of that we had a very
4 unusual number of maintenance turnarounds.

5 These are planned turnarounds. You bring
6 the plant down typically for three to four weeks and
7 then during that time period you do whatever upgrading
8 or maintenance needs to be done to the plant.
9 Particularly in the Middle East over the last six
10 months we've seen just a phenomenal number of plants
11 that have gone down for maintenance turnarounds.

12 So in 2004 it was an unusual year in terms
13 of supply and that definitely did tighten the total
14 world balance for Urea.

15 COMMISSIONER ARANOFF: So let me turn then
16 to a pricing question. I just want to start by
17 confirming with the industry representative when
18 people buy Urea they buy it based on a delivered
19 price. Is that correct?

20 MR. BUCKLEY: That depends. Some people
21 will buy it FOB our plant, buy it on barge, some
22 product we will sell and deliver it into the market.
23 It's sold actually in a number of different ways.

24 COMMISSIONER ARANOFF: What about imported
25 product in the U.S. market?

1 MR. BUCKLEY: Yes. You mean in terms of how
2 do the traders buy it and sell it into the market?

3 COMMISSIONER ARANOFF: Is it sold at the
4 Port New Orleans? Is it sold delivered price? Is it
5 sold FOB to foreign port?

6 MR. BUCKLEY: Okay. There are a variety of
7 ways for that to be priced.

8 For example some of the product out of the
9 Middle East is on a contractual arrangement with a
10 domestic buyer and they're purchasing the product on
11 an indexed value, so whatever the price in the market
12 is at the time that the product is delivered they will
13 pay that Green Markets price or whatever the index is
14 plus or minus a certain amount of agreed upon price.

15 So you'll have that type of arrangement, you
16 will have a lot of it that is sold strictly on the
17 spot market. The vessel will show up and it will be
18 sold into the marketplace. So, again, there's a
19 variety of ways that imports are priced into the U.S.
20 market.

21 The other key aspect of that is particularly
22 when you're looking at the world market in general and
23 looking specifically at Russian and Ukrainian product
24 most of that product if not all of that product is
25 going to be sold from traders. Traders will typically

1 purchase FOB and some on the spot markets.

2 A few traders do have contractual
3 arrangements both in the U.S. and in foreign markets,
4 not for Russian product obviously. Traders play a
5 very major role in this market, but again, that's a
6 variety of ways that the price is sold.

7 MS. SLATER: Could I ask Mr. McGlone also to
8 address that? It's important to keep in mind when you
9 talk about the pricing of imports to think about two
10 questions. How is it purchased by the traders who
11 actually deal in this product? Then I think maybe the
12 other part of your question how is it coming into the
13 U.S.? Those are I think both relevant portions.

14 COMMISSIONER ARANOFF: Mr. McGlone?

15 MR. MCGLONE: What we see is the Arab gulf
16 producers have definitely tried to position their
17 product on a delivered basis into the markets and to
18 trend away from pricing product FOB their plants, so
19 they're moving further down the value chain.

20 They've done investments like have put their
21 own people into the receiving countries in order to
22 price their product relative to what that country's
23 market will bear. So that's a distinct different way
24 of pricing compared to pricing it in the Black Sea FOB
25 on the dock, take it from there wherever you want in

1 the world versus you will buy the product CFR
2 delivered at the home destination.

3 COMMISSIONER ARANOFF: Thank you. That kind
4 of leads me to a question that I had for Mr. Klett
5 about the net-back pricing analysis which is to the
6 extent that Urea is sold on a delivered basis I guess
7 I'm trying to understand what the significance of a
8 lower net-back in the Black Sea is.

9 The customer is paying a delivered price and
10 everybody's competing for the purchaser's business on
11 that basis. The fact that the Russian producer might
12 actually be collecting less money at the end of the
13 day might just reflect the fact that they can afford
14 to take that hit because they have these lower
15 production costs, but it doesn't affect the price in
16 the U.S. market.

17 If I'm wrong about that, please explain how.

18 MR. KLETT: I think in the Sunset case in
19 particular there's two dimensions on pricing. One is
20 you're correct in terms of what the customer pays and
21 kind of your standard underselling analysis. What you
22 want to look at is what the relative price is at the
23 U.S. port or to the U.S. customers at the competitive
24 level.

25 For that analysis I agree the net-back

1 analysis is irrelevant. The reason I did the net-back
2 analysis is because when you're looking prospectively
3 forward one of the questions is which market is more
4 attractive to the foreign producers or the traders?

5 For that question I think the relative
6 prices at that level at the Baltic port or the Black
7 Sea port is relevant because if you can get on a net-
8 back basis at your foreign port a higher price in the
9 U.S. than you can get at say in Brazil the U.S. is
10 going to be a more attractive market for the foreign
11 producers to sell to going forward.

12 So the net-back analysis that I did really
13 related to that second pricing issue because of the
14 prospective nature of the Sunset review. It's not
15 particularly relevant to the underselling analysis or
16 the other prospective question would subject imports
17 undersell the U.S. producers or undersell other
18 imports in the U.S. market at the competitive level.

19 COMMISSIONER ARANOFF: Thank you very much
20 for that clarification. I see that my time is about
21 up.

22 CHAIRMAN KOPLAN: Thank you, Commissioner.

23 Thank you, all, for your answers thus far.

24 I need some help. I'm looking for some
25 detailed price information with respect to prilled

1 product for different uses. I have a series of short
2 questions on that that I'll do one at a time.

3 First I would like data with regard to the
4 price of prill for animal feed. Can I hear from the
5 domestic witnesses on that? What is the price of
6 prill for animal feed?

7 MR. MCGLONE: Greg McGlone here. Do you
8 want the actual number or do you want to know how the
9 pricing is calculated in a generic basis?

10 CHAIRMAN KOPLAN: Well, since you put it
11 that way I'd like both.

12 MR. MCGLONE: Sorry I offered it like that.

13 CHAIRMAN KOPLAN: It's okay. You're doing
14 very well.

15 MR. MCGLONE: I'm speaking specifically on
16 our Borger, Texas, plant for our feed grade product
17 which is the primary production from that plant.

18 CHAIRMAN KOPLAN: That's micro, right?

19 MR. MCGLONE: That's a microprill.

20 CHAIRMAN KOPLAN: Okay. I am interested.
21 That was one of my questions. I had one about
22 microprills for feed use and you'd be the appropriate
23 one to respond on that.

24 MR. MCGLONE: Correct.

25 CHAIRMAN KOPLAN: So let me direct that one

1 to you.

2 MR. MCGLONE: Right. So our pricing today
3 is based on what the NOLA Urea price is vis-a-vis
4 green markets and then whatever distribution cost
5 advantage we might have to get it to the actual
6 customer. Our plant relative to where that NOLA
7 product is sitting in the U.S. gulf.

8 So if NOLA is sitting today, I'm not sure
9 what the latest publication is at, if NOLA is sitting
10 at \$300 today then our feed grade price would be about
11 \$300 benchmarked to NOLA plus a premium of say \$10 to
12 \$15 in order to account for the fact that we are
13 closer to the market. That's how the feed grade would
14 be priced.

15 CHAIRMAN KOPLAN: Let me ask you, do you
16 think you could provide what that trend has been
17 during this second period of review that we're looking
18 at? Could you do that posthearing?

19 MR. MCGLONE: Yes.

20 CHAIRMAN KOPLAN: Good. Thank you. Now,
21 let me come back for prills for animal feed as opposed
22 to feed use.

23 Mr. Dietz?

24 MR. DIETZ: Mr. Chairman, we do not sell
25 Urea into the -- well, sorry. We do sell some into

1 the animal feed business, but it's a prilled product.
2 I think the same comments that Mr. McGlone gave you
3 are applicable to our pricing as well. We are pricing
4 versus NOLA with a differential for, it's manufactured
5 at our Augusta facility currently.

6 CHAIRMAN KOPLAN: Could you provide similar
7 information that I requested for the period that's
8 under review?

9 MR. DIETZ: Yeah. On the posthearing brief.
10 Yes.

11 CHAIRMAN KOPLAN: Yes. Would you do that?
12 Anybody else?

13 Please feel free to get in, Mr. Buckley.

14 Now, what about the price of prills for
15 fertilizer use? Do any of you sell prills for
16 fertilizer use?

17 Mr. Buckley?

18 MR. BUCKLEY: Yes, Mr. Chairman. We as I
19 mentioned earlier are 100 percent granular producers,
20 so all of our product is sold into the granular market
21 and we don't produce prilled product, but the Green
22 Markets prices they do report U.S. granular barge
23 prices at the gulf and also the U.S. Gulf prilled
24 import price, so we do have that series of data back
25 for an extended period of time.

1 CHAIRMAN KOPLAN: So that can be provided
2 for the record?

3 MR. BUCKLEY: That can be provided. Yes.

4 CHAIRMAN KOPLAN: Are you conferring with
5 your client? Did you want to add something to that,
6 Ms. Slater? I saw you conferring with Mr. Dietz.

7 MS. SLATER: No. I was just confirming.
8 They've got so many different places these prills are
9 going I just wanted to confirm.

10 CHAIRMAN KOPLAN: Okay. The next category
11 I'm looking for is the price of prills for adhesives
12 which I understand is a rather significant area for
13 sales. Can I get that information?

14 MR. DIETZ: Mr. Chairman, this is Jim Dietz
15 from PCS again. Yes, we do sell prills into that
16 application and we could provide pricing information
17 over this review period if you desire in the
18 posthearing brief.

19 CHAIRMAN KOPLAN: I would. Let me move to
20 another category, the last category that I have, and
21 that's for pharmaceutical use.

22 MR. DIETZ: Yes. I think we may be the only
23 ones in that market out of our Lima, Ohio, facility.
24 We could provide that in the posthearing brief as
25 well.

1 CHAIRMAN KOPLAN: To facilitate this I might
2 suggest, Ms. Slater, that you get together with Mr.
3 Cantrell of our staff after the hearing so that the
4 information we get is tailored to exactly -- as
5 complete as I can get it for these separate
6 categories.

7 MS. SLATER: Be happy to do that, Mr.
8 Chairman.

9 CHAIRMAN KOPLAN: That would be very good.
10 Thank you. Ms. Slater, while I have you did
11 microprilled Urea exist in 1987? I'm asking you the
12 question because I remember you said nothing's changed
13 since 1987 and I didn't notice that before, so I'm
14 just wondering was it around then?

15 MS. SLATER: It absolutely was. In fact we
16 were talking about it this morning. I pulled out of
17 my desk drawer a bag of Urea samples back from 1986.
18 Isn't that terrible? There was included in there a
19 bag of microprills, which of course are the feed
20 prills.

21 Unless I'm mistaken microprills are all feed
22 grade, so when you talk about prills for feed it's
23 necessarily microprills. They're not two different
24 things.

25 CHAIRMAN KOPLAN: That was in 1987?

1 MS. SLATER: That was back from, right, the
2 1986-1987 time period.

3 CHAIRMAN KOPLAN: I wonder what the shelf
4 life of that is?

5 MS. SLATER: Needless to say I'm not putting
6 it into my feed.

7 CHAIRMAN KOPLAN: Yes. I didn't think so.

8 Mr. LaFleur, I don't want to leave you out.
9 I was looking at your testimony and I noticed that you
10 said that you buy Urea from CF and other suppliers
11 including suppliers of imported product.

12 My request is for purposes of the
13 posthearing can you identify who those other suppliers
14 are including who the suppliers of imported product
15 and from what countries that product was coming from?
16 Could you do that posthearing?

17 MR. LAFLEUR: Yes, sir. I can.

18 CHAIRMAN KOPLAN: Also, while I have you you
19 also stated that once you inform granular suppliers of
20 the lower prill prices they were usually more than
21 willing to reduce their price to even match the price
22 or at least to further reduce the price differential
23 between granular and prill.

24 Over on page 3 of your testimony you were
25 talking about the leverage you have in the middle

1 paragraph and then you indicated you've done that
2 yourself in the past and you'd do it again. Do you
3 see the paragraph I'm referring to on page 3?

4 MR. LAFLEUR: Yes, sir. I do.

5 CHAIRMAN KOPLAN: Could you for me for post
6 hearing document instances of that that occurred
7 during the period of investigation?

8 MR. LAFLEUR: Yes, sir. I can.

9 CHAIRMAN KOPLAN: With whom you were dealing
10 with, what the amount, the quantity, the price and the
11 value of the sale, that kind of thing? If you could
12 do that from your records I'd appreciate it.

13 MR. LAFLEUR: Yes, sir.

14 CHAIRMAN KOPLAN: Thank you. Do you import
15 yourself? Do you actually import directly Urea from
16 foreign countries?

17 MR. LAFLEUR: No, I do not.

18 CHAIRMAN KOPLAN: You don't. Okay. Is
19 there a difference in price between U.S. produced and
20 imported prilled Urea?

21 Mr. Dietz?

22 MR. DIETZ: Yes, Mr. Chairman. What we have
23 experienced in our pricing is they key off of each
24 other. Our industrial customers who are prill
25 customers are looking at what the price is relative in

1 NOLA, the New Orleans market, on imported prills.
2 They're bringing that to our attention and that's
3 where the negotiations are centered, around that --

4 CHAIRMAN KOPLAN: Do you start with a
5 difference in price?

6 MR. DIETZ: I'm sorry?

7 CHAIRMAN KOPLAN: You do start with a
8 difference in price, though?

9 MR. DIETZ: Well, we try to establish a
10 difference in price certainly, but they keep bringing
11 us back to the fact that these are what the imported
12 prills price is. In fact they'll even quote granular
13 prices to us in our negotiations. So there's always a
14 push by the consumer to bring the price down as low a
15 level as he can find reference for.

16 Many of our contracts as a result wind up
17 being indexed to those prices with a distribution or
18 freight differential.

19 CHAIRMAN KOPLAN: Could you provide for
20 purposes of posthearing some specific examples of that
21 kind of negotiation?

22 MR. DIETZ: We will.

23 CHAIRMAN KOPLAN: I'd appreciate that. I
24 see my red light is on.

25 Vice Chairman Okun?

1 VICE CHAIRMAN OKUN: Thank you.

2 Let me begin and say, Mr. Klett, I
3 appreciated that clarification you gave to
4 Commissioner Aranoff with regard to your net-back
5 pricing chart and your relevance as you see it to
6 Sunset versus whether it was the price you had looked
7 at and undersigned. It helped me better understand
8 what you were trying to get at there.

9 My first question, Ms. Slater, is for you
10 which is when I went back to look at the first Sunset
11 review and the original, and I wasn't here to
12 participate in it, there are a couple of things that
13 struck me in reading that that I'd just like to get
14 your responses on in terms of how you'd have me
15 analyze this case.

16 One of the things I thought was interesting
17 in looking at the analysis of at least I guess some of
18 my colleagues here were just the situation in that
19 particular review where you had U.S. prices declining,
20 you had just had the 1998 closure of the China market,
21 and high underutilized capacity in the subject
22 countries and a condition of world supply, the world
23 surplus of Urea.

24 Help me out now in this review where I would
25 say at least a number of those factors look different

1 than they did then, but I'm supposed to be looking
2 forward here. Help me out in understanding how you'd
3 have me do my analysis and how it would differ from
4 the first review.

5 MS. SLATER: Thank you for that opportunity,
6 Commissioner Okun. I think there's a couple of
7 factors. As you know the Sunset reviews are always
8 snapshots and so because we're on a five year
9 statutory schedule the point in time at which you look
10 at an industry and look at how things are coming
11 together it's somewhat fortuitous where you are in the
12 cycle.

13 I think someone correctly recognized this is
14 like many commodity markets very much a cyclical
15 industry with capacity coming on stream and going down
16 as the market changes. In the last Sunset review we
17 were very much at a different point I think in that
18 cycle.

19 What you're looking at now is the situation
20 where we are, and I'll let the industry witnesses talk
21 about this more if it helps you, but we're looking at
22 a situation where at this moment the industry is
23 benefitting from a disconnect as the cycle's increased
24 supply has been delayed through some series of
25 unexpected and -- I mean, fortuitous from the

1 standpoint of profitability, but unexpected events.

2 These events are controlling the market at
3 the moment and the forecast within your five year
4 window certainly, but depending on which analyst you
5 look at within a relatively close period of time show
6 all of that shifting. Indeed it's begun to shift
7 today with China changing its export tax policy, and
8 product coming into the world market and some of these
9 delay plans already this year coming on stream.

10 So we are looking at once again moving back
11 toward a surplus of supply, and I would say moving
12 back toward underutilized capacity. If you look at
13 the capacity figures that you see in your staff report
14 -- and I wanted just to comment on that for a second.

15 We have data from the IFA, which is the
16 National Fertilizer Association, we have data from our
17 consultant, Fertecon, in the record, we don't have
18 complete data from the Russian industry, which gave
19 you a very partial response, but looking at those
20 published data what we see is that there's been a real
21 up and down, a real variability in the capacity
22 utilization over time.

23 The relatively high utilization that we're
24 looking at at this moment actually is not this moment
25 it's for 2004 and every indication is that in 2005

1 things may look a little bit different on that score.

2 In addition if you look at producer by
3 producer the capacity information that you have before
4 you what you're going to see is you have a number of
5 Russian producers that seem to have capacity in excess
6 of 100 percent which means that there are a number of
7 Russian plants with significantly underutilized
8 capacity and it's very important to do that as well.

9 Even at this moment when looking at it on a
10 macro basis the capacity would seem high. So I think
11 it's important to look at those factors as you must
12 legally in the context of the business cycle of the
13 industry.

14 VICE CHAIRMAN OKUN: Okay. It would be
15 helpful just to have the producers if you could just
16 give me your sense of where your business is and where
17 the industry is in the business cycle.

18 I'll start with you, Mr. Dietz.

19 MR. DIETZ: Certainly. We think right now
20 that in particular in the Urea business as a
21 separation from the total measures in business is
22 beginning to top out so to speak. We've seen prices
23 stabilize while they were increasing over 2004, we
24 have seen them stabilize here in 2005.

25 We don't know what exactly that means for

1 the future, but certainly these new projects are
2 coming on line so there is going to be more capacity
3 becoming available and with China reducing its export
4 tax that also will have an affect. There will be more
5 supply available in the world market.

6 VICE CHAIRMAN OKUN: Before I turn to Mr.
7 Buckley, on the Chinese export tax and I know you
8 briefed it in your prehearing brief, Ms. Slater, but
9 it's scheduled to be reduced or there is indication it
10 will be reduced? Let me make sure.

11 Or, Mr. Dietz, if you could answer?

12 MR. DIETZ: It already has been reduced to
13 some extent and the anticipation is as Mr. Buckley
14 pointed out earlier by year end it could be to zero.

15 VICE CHAIRMAN OKUN: That's based on analyst
16 reports or anything the Chinese government has said?
17 That's what I'm trying to clarify.

18 MR. DIETZ: It's based on analyst reports I
19 believe.

20 Is that right, Glen?

21 MR. BUCKLEY: (No response.)

22 VICE CHAIRMAN OKUN: Okay. Mr. Buckley,
23 comments on the business cycle? Anything as to Mr.
24 Dietz' view?

25 MR. BUCKLEY: Yes, Commissioner. I would

1 much rather handle that question in posthearing brief.
2 I hope you understand we have been a public company
3 for less than a month, so we're still trying to find
4 our way in this whole spectrum of being a public
5 company.

6 VICE CHAIRMAN OKUN: Don't want you to say
7 anything to mess that up, so we can do that for
8 posthearing.

9 MR. BUCKLEY: Thank you.

10 VICE CHAIRMAN OKUN: If I could, Mr.
11 McGlone, if you could comment on that? Also, since
12 you also export from the Kenai facility talk about
13 whether you think that differs for where the world
14 business cycle is? If you could talk about that? I
15 think it may be regional, but to the extent you can
16 talk about that.

17 MR. MCGLONE: I'm sorry. Could you just
18 reask the question again?

19 VICE CHAIRMAN OKUN: Just where you see the
20 business cycle for the industry, both for the U.S. and
21 for those markets that you export into as well.

22 MR. MCGLONE: Well, as I put in my
23 testimonial we certainly see the next five years as
24 having a surge of new capacity coming on stream.

25 When we look at the list of plants lined up

1 that have been announced that equates to 15 million
2 tons of new capacity over the next five years, so in
3 our minds that's a fairly significant shift in the
4 supply/demand cycle that we will be seeing we suspect
5 starting in 2006, so that answers that question.

6 VICE CHAIRMAN OKUN: Okay. One of the
7 things about this record is a second question for you
8 all which is to the extent that nonsubject sources are
9 a very big part of this market and certainly, Ms.
10 Slater, I'll come back to you, I'm talking about the
11 legal aspects of the nonsubjects, but imports in
12 general coming into a market where one could argue
13 there was demand for bringing in a particular prill,
14 which you've talked about and which you've
15 acknowledged is just helping me understand -- again,
16 I'm looking at these projections and trying to
17 understand are you making your projection on the
18 change in the business cycle just because this
19 additional capacity is going to come on in the 2005-
20 2006, that that's really the key change in the markets
21 for the business cycle?

22 Would that be an accurate restatement of
23 what you said, Mr. McGlone?

24 MR. MCGLONE: That's correct. I mean, our
25 prediction has been that this was going to occur. As

1 some of my colleagues have indicated it has been
2 delayed for several reasons, slower than planned
3 start-ups, but we see these plants are being built.

4 There is obviously a portion of these
5 countries that monetize their gas in the form of
6 creating Urea and selling it around the world and as
7 these plants come on stream within three years of when
8 they're announced then it is going to hit this market.

9 VICE CHAIRMAN OKUN: I don't have too much
10 time left, but I can return to the question. This is
11 a market where you've all talked about the traders and
12 their role in the world market and you have these
13 Middle Eastern projects primarily that are coming on
14 at a place where there's very low cost gas, lower cost
15 gas than even Russia and Ukraine arguably. How will
16 that sort itself out in the U.S. market?

17 Wouldn't they find it more attractive to
18 bring the Middle Eastern gas? I want to talk to the
19 producers about what they bring in, too, but answer
20 this in the short-term and we'll return to what you
21 all import yourselves.

22 The red light came on, so that's -- we'll
23 have a chance -- if my colleagues don't come back to
24 this, I will come back to it on my next round and get
25 a more fulsome answer, but I appreciate all those

1 responses.

2 CHAIRMAN KOPLAN: Go ahead.

3 VICE CHAIRMAN OKUN: It will take a while,
4 Mr. Chairman, because I want to hear from all the
5 producers.

6 CHAIRMAN KOPLAN: Okay.

7 VICE CHAIRMAN OKUN: Thank you.

8 CHAIRMAN KOPLAN: Commissioner Hillman?

9 COMMISSIONER HILLMAN: Thank you.
10 I'm trying to sort out -- if everyone is
11 ready to respond to the Vice Chairman's question, why
12 don't you go ahead and do so now, rather than break
13 the transcript.

14 The Middle East product coming into the
15 U.S., is basically what we're asking about. They've
16 got even lower gas prices than Russia.

17 MR. DIETZ: Yes, we do anticipate that that
18 would be an attractive market for us, as well as the
19 Far East and the Indian market is also growing, could
20 be a market for that Middle Eastern production.

21 The thing that we have always appreciated
22 about that, it is marketed more fairly than it has
23 been out of Russia, Ukraine, there are relationships
24 with the traders, established relationships, where
25 it's not as an aggressive undercut as what we've seen

1 in the past from the Russian and Ukrainian producers.

2 MR. KLETT: Commissioner Hillman, this is
3 Dan Klett. Just because the Middle Eastern producers
4 have lower gas than the Russian and Ukrainian
5 producers doesn't necessarily mean that the Middle
6 Eastern prices or prices for the Middle Eastern
7 product will be lower than available from the Russian
8 and Ukrainian producers. I think a good example of
9 that is the pricing of the Romanian and Estonian
10 product in the U.S. since revocation of the orders.
11 Those prices came in at levels below the existing
12 Middle Eastern import prices in corresponding months.

13 COMMISSIONER HILLMAN: Okay. Do others want
14 to comment on the Middle Eastern product coming in?

15 (No response.)

16 COMMISSIONER HILLMAN: Okay. If I can then
17 turn a little bit to the issue of natural gas prices
18 versus the prices of the product, obviously the
19 surging natural gas prices could have had a potential
20 to squeeze profits and yet clearly what we saw
21 throughout 2004 is that all of you were able to
22 increase your products to much more than cover the
23 price of the natural gas increases. Why?

24 Why were you so able to pass along gas
25 increased prices and quite a bit more?

1 Mr. Buckley?

2 MR. BUCKLEY: Yes, Commissioner. We really
3 don't have the opportunity to pass on costs. We are a
4 commodity product in the true sense of the word, so we
5 are basically price takers and whatever the price is
6 in the market is the price we have to accept for our
7 product.

8 During these past few years, the very tight
9 world supply/demand balance did lift the whole world
10 market higher, so the higher production cost, we were
11 able to continue to run and continue to make a profit,
12 even under the situation of very high natural gas
13 costs. So it's really not a question of passing price
14 on, it comes to a question while gas is a very
15 important factor, it's the product price which is
16 really the key to profitability in this market.

17 COMMISSIONER HILLMAN: Mr. LaFleur, as a
18 purchaser, do you watch natural gas prices? I mean,
19 are you aware as natural gas prices go up that there
20 will be a correlating price increase for urea?

21 MR. LAFLEUR: Yes, I do watch natural gas
22 prices. However, it doesn't always dictate the price
23 of urea, depending on what's coming and going in the
24 country and the time of the year that demand would
25 dictate the price.

1 COMMISSIONER HILLMAN: Okay. Our data to
2 some degree ends in 2004. What would you say has
3 happened in 2005 in terms of this relationship between
4 the cost of the natural gas versus the price that
5 you're able to get for urea? Are you continuing to
6 see a good spread there or what has happened?

7 MR. BUCKLEY: The first half of 2005, we had
8 very good margins. In the last few months, the
9 situation has reversed and, again, I have to sort of
10 temper my remarks and provide more information in a
11 post-hearing brief, but one point I did want to make,
12 that if we had the opportunity to pass on costs, one
13 example to show you that we can't do that is if you
14 look at producer margins, if we could pass on costs to
15 the final consumer, we would have more of a constant
16 margin, but the fact is that the margins to producers
17 are highly variable, going from a negative to very
18 high margins in 2004, beginning of 2005, so there is
19 this considerable amount of volatility in producer
20 margins and I think that's evidence of the fact that
21 we are just price takers.

22 COMMISSIONER HILLMAN: Mr. Dietz or
23 Mr. McGlone, will you comment on from your perspective
24 what's happened to this relationship between gas
25 versus urea prices for you in 2005?

1 MR. DIETZ: Yes. Very similar to what
2 Mr. Buckley has said, we did see -- because of tight
3 supply, we saw better prices for product, for urea
4 product, for the first half of the year and we have
5 seen it go the other direction here in the latter
6 parts of 2005. So, yes, we have a similar experience
7 to what Mr. Buckley described.

8 COMMISSIONER HILLMAN: Mr. McGlone?

9 MR. MCGLONE: I think an example is today
10 what we're facing in the national gas market in the
11 U.S. is that we have had margin erosion very quickly,
12 given the natural gas costs. We have not been able to
13 automatically post dramatic new higher prices to
14 reflect what's happened to natural gas here in the
15 last three to four weeks and to me that reinforces the
16 fact that we are price takers and we can't just pass
17 the prices on because we are pegged, again, to a world
18 market and you have to be competitive relative to what
19 your competition can bring into your back yard.

20 COMMISSIONER HILLMAN: I appreciate those
21 answers.

22 If I look at the Russian and Ukrainian
23 product, are they capable of producing industrial
24 grade prills that would be acceptable as a replacement
25 for the domestic prills that, say, you, Mr. Dietz,

1 sell into the pharmaceutical industry? Can they make
2 a formaldehyde-free product? Can they make a micro
3 prill product that would go into -- I mean, are they
4 making those products today and selling them, the
5 non-fertilizer form of prill product?

6 MR. DIETZ: Commissioner, we do sell into
7 the pharmaceutical market, it's a very small volume
8 and it is very specialized. I doubt that they could
9 compete in that market simply because of the distance
10 to transport involved and to make a formaldehyde-free
11 particle, it would show up pretty much as a solid
12 block by the time it arrived.

13 They can compete in the adhesives business
14 and other industrial applications where those quality
15 restrictions are not there and they do compete in
16 those markets.

17 COMMISSIONER HILLMAN: They do?

18 MR. DIETZ: Yes. Very readily.

19 COMMISSIONER HILLMAN: Are there
20 qualifications or anything else that affects their
21 ability to sell into the industrial side of the prill
22 market?

23 MR. DIETZ: No. No.

24 COMMISSIONER HILLMAN: Mr. McGlone, you
25 mentioned in your testimony this issue that they could

1 re-size their product to make it attractive in the
2 feed lot, feed market. Are they currently selling a
3 micro prill product in other markets?

4 MR. MCGLONE: I don't know if they're
5 selling a micro prill product in other markets. What
6 I do know is it's simply a matter of your screen
7 sizing on your finished product to be able to take the
8 proper product cut out of your prill toller, to pull
9 off a smaller size product and market it.

10 COMMISSIONER HILLMAN: As I recall your
11 direct testimony, you mentioned this issue of
12 re-sizing of the Russian or the Ukrainian product.
13 You're saying you would be doing that at the
14 production end; it's not as though you would bring in
15 standard size prills and then somehow convert them
16 into micro prills; that's not what you're telling me?

17 MR. MCGLONE: That's correct. It has to be
18 off the production line.

19 COMMISSIONER HILLMAN: Okay. Okay. Then if
20 I could go to the issue of current levels of Russian
21 and Ukrainian exports.

22 Ms. Slater, in your brief, you're claiming
23 that there's been a real decline in the Russian and
24 Ukrainian product going into particular markets,
25 Brazil, Vietnam, Turkey, I don't recall the other ones

1 that were in the brief, but I will say our staff
2 report obviously shows overall very significant
3 increases in the exports coming out of Russia and the
4 Ukraine through 2004, so I'm just trying to understand
5 whether you're telling the Russian and Ukrainian
6 product is going elsewhere or whether something has
7 happened specifically in 2005 that has caused this big
8 decline in shipments to Brazil, Vietnam, Turkey,
9 others.

10 MS. SLATER: Commissioner, it's very clear
11 that there was an increase in exports in 2004 due to
12 some of the same market tightness that we were just
13 talking about. What we're seeing this year and sort
14 of the explanations and stories would differ market by
15 market, but the import data, for example, actual
16 import statistics coming out of Latin countries, shows
17 that those imports have declined substantially and
18 that correlates with the increasing availability of
19 unsold product looking for a home that's lining itself
20 up at the Baltic and Black Sea ports and those are
21 some of the quotes we've put in our brief, there
22 actually were reports in the daily and weekly industry
23 papers about tons looking for a home to the point
24 of -- I think Mr. Klett mentioned where the port
25 facilities had to tell the producers to stop sending

1 rail cars, they embargoed the rail cars coming there.

2 There has been a turnaround starting this
3 year in terms of the demand for that product, in part
4 because of the change in the whole supply/demand
5 balance and in part because of particular conditions
6 in those markets in Latin America that we've seen.
7 There's a Venezuelan plant that has come back on
8 stream and is more available locally to Latin markets.
9 The Vietnamese plant, I believe, is now back and
10 Mr. Buckley and others may remember the details, but
11 there are a variety of things which have in essence
12 made the demand for that Russian product less tight
13 than it was just in that short period of the last
14 year.

15 COMMISSIONER HILLMAN: It was more the sort
16 of disconnect between our export data and the --

17 MS. SLATER: I think it's the timing and
18 it's where we are in the cycle until -- the picture
19 that you got really was for 2004 and I would urge the
20 commission to look at the more recent data, look at
21 the analysts, but also to look at that export
22 information and the capacity utilization over time,
23 over the full period.

24 COMMISSIONER HILLMAN: All right. Thank you
25 very much. I appreciate those answers.

1 CHAIRMAN KOPLAN: Thank you, Commissioner.
2 Commissioner Pearson?

3 COMMISSIONER PEARSON: Thank you,
4 Mr. Chairman.

5 Is it clear whether natural gas is provided
6 to urea manufacturers in Russia and Ukraine at prices
7 lower than those prevailing for other gas consumers in
8 those countries?

9 MS. SLATER: I think, Commissioner Pearson,
10 the issue is not whether -- these are industrial gas
11 prices that apply throughout Russia, so that it's not
12 so much a particular price provided although in past
13 years there actually has been a special discount for
14 Russian fertilizer plants, currently this is an
15 industrial gas price set for industry in general and
16 the Russian fertilizer -- the nitrogen producers, of
17 course, benefit from that more than anyone because
18 they use more gas than anyone, but it's an industrial
19 gas pricing policy across the board and the prices
20 vary by region with particular prices set for
21 producers in particular regions.

22 COMMISSIONER PEARSON: And do they provide
23 different levels of pricing for other uses? I don't
24 know if there's residential heating use, for instance.

25 MS. SLATER: Yes. There are also dictated

1 prices for residential use, but I think the
2 residential use has not been the subject of so much
3 international focus in terms of market reform. The
4 idea has been to get markets less affected by this
5 practice by getting the industrial pricing practices
6 on a road to reform.

7 COMMISSIONER PEARSON: Okay. So you are
8 making the case that there is a conscious policy of
9 discriminating among various users in terms of the
10 price paid for natural gas in Russia. Is that
11 correct?

12 MS. SLATER: No, Commissioner, I think the
13 issue really has been an overall natural gas pricing
14 policy that the Russian government imposes whereby Gas
15 Prom, the Russian gas producer and supplier, is
16 required to supply gas to Russian domestic industry at
17 prescribed prices, prices which are below Gas Prom's
18 cost of producing and distributing the gas, and this
19 is not something that is just for fertilizer
20 producers. It has affected -- although not nearly to
21 the same extent because of the usage factor, but it
22 has also affected Russian steel, it has affected a
23 whole range of commodity products which are energy
24 intensive. None of them, however, are impacted to the
25 same extent as fertilizer because of the importance of

1 nitrogen as the feedstock, gas as a feedstock. Gas is
2 to nitrogen production like flour is to bread. It is
3 that basic a component of the production process.

4 COMMISSIONER PEARSON: Would you have the
5 same concerns if gas was just priced at a uniformly
6 low level for all users in Russia, just because they
7 have a lot of it and they want to get rid of it?

8 MS. SLATER: There is a very strong
9 recognition among the industry here that Russia, even
10 when it begins to price its gas on a commercially
11 reasonable level, will be very competitive. The
12 Russian gas prices, even when they do get to the
13 point, Commissioner, where they are covering their
14 costs will be very competitive and I think everyone
15 expects it in the long run. Russian fertilizer plants
16 will be up and running and will offer some vigorous
17 competition.

18 The issue is that those prices are so
19 seriously and artificially suppressed by these
20 government policies that it continues to allow plants
21 to have a commercial basis to run and to produce and
22 to export which simply wouldn't exist. So there's a
23 volume issue and then there's a pricing issue that's
24 permitted as a result of these policies.

25 COMMISSIONER PEARSON: And would I be

1 correct to infer that the U.S. industry's basic
2 concern is with Russia and Ukraine because those
3 policies are so divergent from policies seen elsewhere
4 in the world that they create this extraordinary
5 effect on market pricing?

6 MS. SLATER: They are accounting for some --
7 I think the figure was 26 percent. I'm looking to
8 Mr. Klett to confirm this. They are by far the two
9 largest world exporters of urea and they make the
10 market and so these policies have quite directly led
11 to the situation where Russia, which by the way makes
12 almost no domestic use of its urea, it's not a popular
13 product in Russia or Ukraine, they produce it for
14 export and it has had an enormous impact in not only
15 world trade flows but as we saw in 1986 in the U.S.
16 market when that product came and captured a quarter
17 of the market in less than a year.

18 COMMISSIONER PEARSON: And am I correct to
19 understand that if you look at Romania, Estonia and
20 Lithuania, where the order recently was lifted, that
21 the sense is that the pricing of natural gas in those
22 countries is basically fair?

23 MS. SLATER: Yes. We're looking at either
24 market orientation or much closer to market
25 orientation in each of those countries. Romania is,

1 I think I read yesterday and maybe Mr. Buckley can
2 correct me, looking at \$4.00 gas at the moment and
3 discussions about whether those plants will continue
4 to run or not. That's what you would expect to see
5 and we're seeing it in Lithuania, we're seeing it in
6 Estonia and the Baltic, so it's a very different
7 situation.

8 COMMISSIONER PEARSON: Go ahead,
9 Mr. Buckley.

10 MR. BUCKLEY: Ms. Slater is correct. We
11 have no concerns from Lithuania, Estonia or Belarus
12 and that's one of the reasons why we decided not to
13 go forth with the orders against those countries.
14 I think a real key point when you're looking at our
15 position in the industry is that we have never
16 objected to fair competition and that's something that
17 we would have absolutely no problem with and we do on
18 a day-to-day basis compete with other imports around
19 the world and have no problem with that.

20 Our basic concern is with Russia and Ukraine
21 and how they market the product and the fact they are
22 getting gas at way below the market value. And so
23 when you look ahead, for example, and let's assume
24 that with the recent negotiations between Russia and
25 the European Union on accession to the WTO where the

1 Russians said that they would agree to increase gas
2 prices within a five-year period to a point where they
3 would cover production costs plus a reasonable level
4 of investment. If they were to follow that step five
5 years from now, we would have no concern with the
6 Russian or Ukrainian product again. The problem is
7 that five-year period where they're going to be
8 bringing gas supposedly at higher levels. We would
9 definitely have concerns about that. But, no, we are
10 more than willing to compete against fairly traded
11 imports.

12 COMMISSIONER PEARSON: Okay. And if Russia
13 and Ukraine do make the types of reforms you've
14 mentioned over the coming five years, would you expect
15 to see a meaningful transformation in the industries
16 in those countries? Are some of those firms going to
17 have a difficult time competing? Are you going to see
18 a downsizing or restructuring? That's somewhat
19 speculative, but I'm just trying to understand what we
20 might be looking at.

21 MS. SLATER: There actually have been --
22 Mr. Commissioner, I have seen studies which sort of
23 project out, you know, it's given gas prices, which of
24 the Russian plants would be able to be considered
25 competitive and would be expected to continue and

1 those which would not and there's been quite a bit of
2 writing. I would be happy to see if I could locate
3 that out of the many reams of things I've seen and
4 provide that to you if you think that would be helpful
5 in the post-hearing.

6 COMMISSIONER PEARSON: That might be almost
7 in excess. We have industry witnesses here who have
8 gone through a lot of transformation, consolidation of
9 the industry in this country and they have some sense
10 of what pressures bring that about. I'm just
11 wondering from their own perspective is that same sort
12 of process in some form or other likely to occur in
13 Russia and Ukraine?

14 MR. DIETZ: Yes, we would certainly expect
15 that as gas prices would increase over there that
16 their economics would change and they are -- in a
17 fairly traded worldwide commodity like urea, when they
18 are competing against Middle Eastern gas, which is
19 significantly below their cost at that point, they
20 will have difficulty competing like we have had
21 difficulty competing. So, yes, they would face the
22 same burdens that we would have.

23 COMMISSIONER PEARSON: Any other
24 observations from the industry?

25 (No response.)

1 COMMISSIONER PEARSON: In Exhibit 2 that
2 Mr. Klett provided, looking at Romania, Estonia and
3 Lithuania, this had to do with their sales prices into
4 the United States in the first several months of this
5 year, why have some trading companies apparently left
6 money on the table by selling the stuff so
7 inexpensively? Were they just trying to get the foot
8 in the door or what's going on here?

9 MR. DIETZ: Mr. Commissioner, our belief is
10 that their economics allow them to take a lower price
11 and they are interested in moving volume. The traders
12 are buying the product and just trying to move the
13 volume and keep the volume moving, so we believe that
14 that's what's occurring there.

15 MR. KLETT: Commissioner Pearson, this is
16 Dan Klett. Also, just in terms of the economics, when
17 you look at the FOB price that the traders have to pay
18 in the Baltic and the Black Sea countries, especially
19 this year and especially since May, compared to what
20 the prevailing price was in the U.S., I think even
21 with this discount they were able to make a return on
22 their sale, as Mr. Dietz said, and I think as was
23 testified earlier, it's a function not just of the
24 margin on a particular ton sold, but also your total
25 return is a function of how much you sell so they're

1 looking both at the margin and at the total sales.

2 COMMISSIONER PEARSON: My time has expired,
3 Ms. Slater. Do you have something that's very quick?

4 MS. SLATER: The other thing to keep in mind
5 is that this product is largely urea prills and so to
6 the extent that you see these differentials, we
7 believe this is a suggestion of what they're having to
8 do and what they'll also do with Russian and Ukrainian
9 product to move that product into the market quickly.

10 COMMISSIONER PEARSON: Thank you very much.

11 CHAIRMAN KOPLAN: Thank you, Commissioner.
12 Commissioner Aranoff?

13 COMMISSIONER ARANOFF: I just have one more
14 question or group of questions and it has to do with
15 the age of the plants in Russia and Ukraine. We're
16 seeing all this new capacity come on line, we're
17 seeing producers in the U.S. and in some other
18 countries convert from prill to granular as they
19 upgrade their facilities.

20 How long can the Russian and Ukrainian
21 industries keep producing on the equipment they have
22 before they have to replace it? Is there a predicted
23 life span?

24 MR. BUCKLEY: Glen Buckley. When you're
25 looking at the age of the plants, for instance, our

1 plants at Donaldsonville were constructed in the late
2 '70s. The plants, if maintained and upgraded over a
3 period of time, can be state-of-the-art plants. If
4 you look at our facilities and I think most of the
5 facilities that are in the United States operating
6 today, these are state-of-the-art for that vintage
7 plant because we continue to put capital expenditures
8 in this and we continue to upgrade the plant. So as
9 far as the Russian plants are concerned, most of those
10 plants were also built in the 1970s. They were not
11 much different from ours, so it's a matter of how much
12 capital have they been willing to put into those
13 plants.

14 Some of the producers in Russia, from what
15 we understand, have put some capital into the plants
16 and improved them; others have not. How long can they
17 continue to produce like that? That's a difficult
18 question to ask, but I would contend that they
19 couldn't operate much longer without putting
20 significant capital in.

21 And, again, I'm sort of in a difficult area
22 here, I may provide some of this information in a
23 post-hearing brief rather than in the public hearing,
24 but from the standpoint of CF, I can tell you over the
25 last ten years, we've invested in capital expenditures

1 over \$1 billion into our fertilizer operations to keep
2 them maintained and to keep them at state-of-the-art
3 conditions.

4 COMMISSIONER ARANOFF: Is there an age
5 limit on a prill tower or do those things last
6 forever?

7 MR. DIETZ: I mean, there are maintenance
8 issues that have to be dealt with, but certainly they
9 can be maintained for a long, long time. I would hate
10 to put an exact year on it, but with proper
11 maintenance, they can last a long time.

12 COMMISSIONER ARANOFF: I mean, I guess I'm
13 trying to understand why it is that there have been
14 these investments in the U.S. in state-of-the-art
15 granular technology, in the Middle East, in other
16 parts of the world, but not in Russia or Ukraine, even
17 though these guys have such a cost advantage that even
18 selling a little less than other people they've got to
19 be bringing in a lot of money they could be using for
20 this.

21 MS. SLATER: Well, I think, Commissioner
22 Aranoff, it's important to recognize that in some of
23 the Russian plants there certainly have been
24 improvements. The companies that are able to afford
25 the fine services of Mr. Morgan, for example, have

1 invested in their plant and in fact attached to the
2 pre-hearing brief are some announcements that Eurochem
3 made of its additional capacity which is coming on
4 stream this year or next year, there's a long-term
5 plan.

6 There are Russian producers which have taken
7 advantage of what they've been able to achieve with
8 their favorable gas costs, so this is not -- I think
9 it's important and part of what I was trying to get
10 across in responding to Commissioner Pearson, there
11 are some very competitive, very good players in Russia
12 and those produces, when the gas prices do get
13 reformed, hopefully, will be there and they will
14 survive and they will compete. Those producers have
15 made some investments.

16 Will they add granulation capacity? We
17 don't believe it's happened yet, but we know that it's
18 possible. We know the cost of doing that compared to
19 the cost of once you've got a plant in place, once
20 you've got the urea synthesis, putting up a granulator
21 is a relatively small investment, \$15 to 25 million
22 compared to the cost of hundreds of millions of
23 dollars to build a plant is definitely doable. The
24 Belarusians are doing it, the Ukrainians are doing it
25 and perhaps they will, but I think it's wrong to say

1 there haven't been any investments.

2 The issue is many of these plants that have
3 not done this and which continue to operate. Those
4 plants which don't have the environmental restrictions
5 of the U.S. producers or many other producers around
6 the world are able to continue, with this gas price
7 just continue going, I suppose, until the plants fall
8 apart.

9 COMMISSIONER ARANOFF: And I guess what I'm
10 trying to get at and maybe you can help me further in
11 your post-hearing brief is why when we've seen this
12 worldwide shift to granular which started, I guess,
13 partially because it's newest technology and partially
14 because producers find it easier to handle that way
15 and it has also gotten popular with consumers in the
16 largest applications, why that trend appears to be so
17 slow in spreading to the two largest producing
18 countries and we've only heard of maybe one facility
19 in Ukraine, so that's where I'm trying to go with that
20 question.

21 MR. KLETT: Commissioner Aranoff, this is
22 Dan Klett. I think Mr. Buckley knows more about this
23 than I, but, for example, one of the largest Latin
24 American countries for the Russians and Ukrainians is
25 Brazil and Brazil is still, I think, largely a prill

1 consuming country, so that that is one reason why the
2 Russian and Ukrainian producers perhaps haven't made
3 the conversion, is that some of their exporting
4 markets still haven't shifted to the granular the way
5 the United States has.

6 MS. SLATER: And sort of a shorthand for
7 that and maybe Mr. Buckley, I know you told me this,
8 but the notion is they can sell it so they do. As
9 long as they have markets where they can move it
10 through pricing, the incentive to make that capital
11 investment is limited.

12 MR. BUCKLEY: Glen Buckley again. I really
13 don't have that much more to add. As Dan said, as
14 long as there are markets that will take the product,
15 they will. Will they convert over to granular
16 production down the road? Again, that's a question
17 they would have to answer and I'm not sure they could
18 answer that right now either. But I think from a
19 long-term perspective, as this market continues to
20 trend towards granular, you will see more and more of
21 that product into the market, into Brazil and some of
22 these other markets that use prill today, they will be
23 switching over to granular.

24 The important part is when you look at --
25 and Ms. Slater mentioned this, about the capital

1 expenditure. I know in the staff report they
2 commented that there was a significant cost in putting
3 in granular capacity and it is in terms of itself, if
4 you just look at the \$20 million it would take to put
5 a granulator on the plant, but in the larger scheme of
6 things, when you look at the industry, we're a very
7 capital intensive industry. To build a world-scale
8 ammonia urea complex with a granular unit on it is
9 going to cost \$600 to 700 million. So in order to
10 just take an existing plant which the front end is the
11 same, the ammonia and the urea melt is the same, and
12 just add on a granular unit at the end of \$20 million
13 is really a drop in the bucket when you look at the
14 total comparison of capital expenditures in this
15 industry.

16 It also can be done in a very short period
17 of time. According to Stamicarbon, 12 to 18 months
18 and \$20 million, you can become a granular producer.
19 And so down the road, I would tend to say that in fact
20 it could be a lot sooner than what we expect, you
21 could see more granular production coming out to the
22 Russian industry.

23 COMMISSIONER ARANOFF: Okay. Thank you very
24 much.

25 I don't have any more questions.

1 CHAIRMAN KOPLAN: Thank you, Commissioner.

2 I just have a couple of matters left.

3 I think that this first one might be a
4 follow-up to a questionnaire that Commissioner Hillman
5 asked on the last round.

6 I'll start this way. In the public version
7 of our staff report, in Chapter 2 at pages 11 and 13,
8 there's a table in between those, but those are the
9 two pages I'm concentrating on, four of seven
10 purchasers reported that they require their suppliers
11 to become certified or prequalified. One of the seven
12 reported that since '87 one or more suppliers have
13 failed in their attempts to qualify solid urea.

14 I can't identify who they are because that's
15 the part that's confidential.

16 Having noted that, do you know whether
17 Russia and Ukraine are capable of producing industrial
18 grade prills that would be an acceptable replacement
19 of domestic prills in animal feeds, urea formaldehyde
20 adhesives and for other specialty purposes?

21 Wouldn't their product have to be qualified,
22 especially for purity and other quality control
23 parameters?

24 I'd like to hear from the domestic producers
25 on that, Mr. Dietz, Mr. Buckley, and Mr. McGlone.

1 MR. DIETZ: Mr. Chairman, we believe that
2 the product would be acceptable, from everything that
3 we know about the product. There might be
4 certification required but we personally, as PCS,
5 would not see that as a huge stumbling block to keep
6 them from supplying customers.

7 CHAIRMAN KOPLAN: Well, given the fact that
8 they've been absent from our market for so long,
9 wouldn't there have to be certification?

10 MR. DIETZ: Yes, but we don't view that as a
11 barrier in their certification.

12 CHAIRMAN KOPLAN: Can you tell me what's
13 involved? How long does it take to get certified?
14 I know it's probably been a long time for any of you,
15 but what would be involved in them doing that? How
16 expensive is it?

17 MR. DIETZ: Generally, it's supplying a
18 product analysis and maybe even a sample of the
19 product that the customer could view and analyze.

20 CHAIRMAN KOPLAN: Where would that go, which
21 agency?

22 MR. DIETZ: Well, it would go to the
23 customer and the customer's laboratory would certify
24 that that product meets it and there would be a
25 certificate of analysis. Typically, our certificate

1 analysis says this is what the analysis of this
2 particular lot or shipment contains. But it would go
3 to -- most of our customers ask for samples to their
4 labs that they verify that what we're saying about the
5 product is indeed true.

6 CHAIRMAN KOPLAN: Well, if it goes to the
7 customers, wouldn't long-term existing domestic
8 purchasers of domestic prills or of non-subject
9 imports be reluctant to switch and start that process
10 over again with these people?

11 MR. DIETZ: The price issue is one thing
12 that comes into play, but the cost of analyzing this
13 material and verifying that it could work in their
14 process is not significant, so it's not a hurdle.

15 CHAIRMAN KOPLAN: I appreciate that.

16 Mr. McGlone, if I could just come back to
17 you on something that you had in your prepared text,
18 at the end you said Borger has survived because it has
19 established a niche for its prill size in the feed
20 grade market and this unique position could be
21 eliminated by unfairly low priced Russian or Ukrainian
22 imports that are re-sized for this market segment.

23 My question is how expensive would it be for
24 them to re-size and does it require some new prill or
25 can that be done with existing equipment? Can you

1 help me out on that?

2 MR. MCGLONE: It would be very easy to
3 re-size it. You're basically taking a different cut
4 out of your screen size in order to be taking --
5 normally, a micro prill product --

6 CHAIRMAN KOPLAN: So you're working with an
7 existing screen, not a modified screen?

8 MR. MCGLONE: Even if you had the modified,
9 the capital for that would not be material at all. In
10 terms of the other characteristics that the feed grade
11 market looks for, as I said, number one is size.
12 Number two is to confirm the nitrogen content of 46
13 percent and the other is to make sure there aren't any
14 other impurities in it. So it would be a relatively
15 simple test. In terms of certifications, all you
16 would have to do is show that your product is
17 equivalent to that product that is already approved
18 for animal feed grade uses.

19 CHAIRMAN KOPLAN: Thank you very much.

20 MR. MCGLONE: It's not a new product.

21 CHAIRMAN KOPLAN: Thank you for that. And
22 with that, I have no further questions. I want to
23 thank you all for the answers to both mine and the
24 other questions thus far and I'll turn to Vice
25 Chairman Okun.

1 VICE CHAIRMAN OKUN: Thank you,
2 Mr. Chairman.

3 I wanted to return for a moment just on the
4 non-subject imports and what role they would play if
5 the order were revoked and one thing that I thought
6 maybe the producers could help me with a little bit
7 more, I think some of this you may have said in
8 response to Commissioner Pearson, but while the actual
9 chart that we have in our staff report, Table I-V, is
10 proprietary, we note that U.S. producers' 2000 imports
11 were approximately 1.9 million tons and account for
12 34.4 percent of 2004 total imports. We talked about
13 the role of traders in this market and, as
14 I understand, international traders who can look
15 around the world and decide where they're going to
16 move product and when.

17 So help me understand, again, the pull for
18 the Russian and Ukrainian if the orders are lifted
19 when traders can look around and figure out where
20 you're going to move market. Is the crux of it that
21 in an over supplied market this would be the best
22 market to move into because it's big or is it
23 regardless of world supply/demand traders are going to
24 want to bring in the low-priced Russian/Ukraine
25 product here and then -- I'm getting into multi-part

1 questions, too -- if you can tell me a little bit
2 about the role of U.S. producers' imports into the
3 market and how that might change and if you need to do
4 that post-hearing, you can do that as well because I
5 understand the proprietary nature of some of that.

6 Ms. Slater?

7 MS. SLATER: Let me start and maybe work
8 backwards a bit in terms of -- because I think this is
9 something I can talk about from having seen all of the
10 data. One thing that is very -- a lot of things are
11 important. One thing you have to keep in mind as you
12 look at non-subject imports is the extent to which
13 those imports are from Canada and you have to take
14 those Canadian imports and put them aside, in part
15 because they are so significant. I think that the
16 numbers are relatively even over the entire period
17 that you've looked at this market, Canadian imports
18 have been a substantial share.

19 We had -- for seven months of this year 42
20 percent of non-subject imports was Canada. It may be
21 a little bit lower over the long run. Those Canadian
22 imports serve the upper tier of the United States.
23 They serve the upper midwest. Those imports are not
24 in the mix in terms of the basic price setting that
25 happens out of the Gulf ports where a lot of the

1 imports -- the other non-subject imports enter.

2 A very high percentage of U.S. producer
3 imports are from Canada. They're from affiliated
4 plants of U.S. producers in Canada and we can actually
5 break that out for you if it's helpful post-hearing.

6 Just, I think, anecdotally what the staff
7 will tell you is some of the U.S. producers frankly
8 forgot to provide importer questionnaires. They don't
9 think of their Canadian supply as imports and that's
10 what a very significant percentage of that figure is.

11 Once you've put that aside and you look at
12 the rest of the import market, there certainly are
13 U.S. producer imports and I think each company would
14 have to discuss the independently. The U.S. market is
15 and always has been an import dependent market. The
16 U.S. industry has never been able to supply this
17 market fully and what we've seen happen over time is
18 that U.S. producers have diversified their sources of
19 supply to their customers at the same time that they
20 are maintaining or trying to maintain their U.S.
21 producer base and we can get some additional -- before
22 we get to your other questions about the traders,
23 maybe -- would it be helpful to you to have comments
24 from the producers about the sources of their imports?

25 VICE CHAIRMAN OKUN: Yes.

1 MR. DIETZ: Madam Commissioner, we do import
2 from our production facility in Trinidad. We produce
3 around 625,000 metric tons there annually and it's all
4 granular product. We import that into the U.S. and it
5 primarily goes into the fertilizer market.

6 VICE CHAIRMAN OKUN: When you answer this,
7 can you all just help me understand -- like sometimes
8 producers, and it may have been in you
9 questionnaire -- the reason you import. I mean,
10 sometimes you're rounding up product line in other
11 areas. Help me understand why you import.

12 MR. DIETZ: The product that we produce in
13 Trinidad goes also into South American consumption,
14 but the bulk of it does come to the U.S. and we import
15 that because that's a significant source of granular
16 production for us to place into the fertilizer market.
17 The only other granular production that we have as PCS
18 is in Lima, so we use that to serve our fertilizer
19 agricultural base customers.

20 VICE CHAIRMAN OKUN: Okay. That's helpful.

21 MR. BUCKLEY: Glen Buckley. The vast
22 majority of our imports come from our affiliated plant
23 in Medicine Hat, Canada and that plant was built was
24 in the early '80s and we basically take that product
25 to serve our customers in the Pacific Northwest and

1 then the upper tier states and then we have our
2 Donaldsonville facility, which serves our customers in
3 the midwest, both in the east and western corn belt
4 and also in the southeast. So as Ms. Slater
5 commented, we basically view that Canadian production
6 in western Canada as all part of sort of one market,
7 as a U.S. market.

8 We have occasionally purchased product not
9 as the importer of record, but have bought some
10 imported product on a spot basis just to fill just
11 minor holes in our supply balance, but that's very
12 low, very few products.

13 VICE CHAIRMAN OKUN: And your product from
14 Canada is the same product that you produce here?

15 MR. BUCKLEY: Yes, it is.

16 VICE CHAIRMAN OKUN: Great. Okay.

17 Yes, Mr. McGlone?

18 MR. MCGLONE: Greg McGlone here. Our parent
19 company in Canada has urea production facilities in
20 western Canada and that's the primary source for our
21 imports into the U.S. We have done a very small
22 amount of purchasing of urea barges in the Gulf, but
23 that's really a small fraction of where imports come
24 from in total Canadian supply.

25 VICE CHAIRMAN OKUN: Okay. And Mr. LaFleur,

1 do you handle any Canadian or where you're located you
2 do not? You mentioned you had imports as well.

3 MR. LAFLEUR: No, ma'am. We do not. It's
4 just not economical to transport it from that far
5 north to the south and we're so close to the river
6 plus the production on the river, it wouldn't be
7 economical for us to purchase from Canada.

8 VICE CHAIRMAN OKUN: Okay. Ms. Slater?

9 MS. SLATER: I'm just going to try and
10 direct some answers maybe on the other part of your
11 questions about non-subject imports and why this
12 market would be attractive.

13 There are a number of factors that
14 Mr. Buckley has mentioned and maybe we can run through
15 some of those. This market is by far the largest
16 importing market in the world and I'm hoping that I'm
17 remembering correctly, in our brief, we even did a bar
18 graph and put it in because I was so surprised when
19 I saw it. It is in terms of volume and size very
20 attractive. We tend over time to have better net
21 backs meaning the prices here tend to give the foreign
22 producers or, more important, the trading companies a
23 better value and even during those periods when it
24 doesn't, they can typically take more volumes here, so
25 it's a very attractive market, but there are a number

1 of other sort of non-price factors that make this
2 market particularly attractive and I think maybe --

3 VICE CHAIRMAN OKUN: I think you did comment
4 on those in your brief and I have read them. I guess
5 maybe, Ms. Slater, I would just say to you, I think
6 the role of non-subjects in this market and the role
7 that they would play if there was revocation of the
8 order is important in how I look at this analysis, so
9 to the extent you can put anything else on the record
10 to help me out on that, I would appreciate that for
11 post-hearing.

12 MS. SLATER: I'd be happy to do that,
13 Commissioner.

14 VICE CHAIRMAN OKUN: Okay. And then,
15 Mr. Klett, also for post-hearing, because I do think
16 it relates -- I know we've talked about, I think
17 Exhibit 2 and Exhibit 12, but Exhibit 25, which is the
18 analysis you do on the effect of subject imports on
19 the domestic industry, if you can for post-hearing
20 talk about how you take the import penetration into
21 account in that in making the estimates on price and
22 volume effects of the Russian and Ukrainian product?

23 MR. KLETT: I will do so.

24 VICE CHAIRMAN OKUN: Okay. And then also if
25 you -- which I think would help our staff in analyzing

1 this -- provide greater detail on your assumption and
2 calculation of fixed versus variable costs.

3 MR. KLETT: I will do that as well.

4 VICE CHAIRMAN OKUN: Okay. I appreciate
5 that and I will take a look at those as well.

6 There was something -- when I was looking at
7 you, Ms. Slater, I thought I wanted to remember to ask
8 you as well and I'm trying to remember what it was.

9 Mr. Chairman, I may come back, but let me
10 just see -- well, I can't remember what it is, but
11 I may have one more question. Let me look.

12 CHAIRMAN KOPLAN: Okay.

13 Commissioner Hillman?

14 COMMISSIONER HILLMAN: I have no further
15 questions, but I want to thank the panel very much for
16 your answers. I very much appreciate it.

17 Commissioner Pearson?

18 COMMISSIONER PEARSON: Yes, Mr. Chairman.
19 I think I have one question.

20 Mr. Dietz, in your testimony, you said
21 something that is in the context of the review
22 hearings that I've gone through, it was unusual
23 because it's not every time that the domestic industry
24 comes before us and says basically we want the order
25 extended this time, but in five years basically we

1 hope to have to make this request.

2 I wonder, could those of you involved in
3 the industry talk a little bit more about the decision
4 making process within the ad hoc committee on how you
5 look at these issues? Because you've gone through a
6 process of winding down what had been a much larger
7 order and now there are these two countries left.

8 Can you tell me about that process and what
9 factors have influenced your thinking?

10 MR. DIETZ: Certainly, Mr. Commissioner.
11 When we started looking at the potential on the urea
12 sunset review here and the number of countries
13 involved, we did have some discussions about whether
14 or not we should keep the countries inclusive as they
15 originally were, but we felt like the issue was more
16 about what's unfair in our competition and we felt
17 like the gas pricing in Russia and the Ukraine was the
18 unfair piece of this and, as we discussed before here,
19 the other countries for which the orders have been
20 revoked and we agreed to do that, they are treating
21 their pricing and their cost of gas fairly and
22 competitively and so we were happy with that. So
23 that's basically the discussion that went on and the
24 decision process that we went through in that regard.

25 COMMISSIONER PEARSON: And was it the same

1 process in earlier times when we weren't talking just
2 about Lithuania, Estonia, Romania, but the number of
3 other countries that were in the Soviet Union?

4 MS. SLATER: In the first sunset review in
5 1999, is that what --

6 COMMISSIONER PEARSON: Right. That's what
7 I'm trying to asking about.

8 MS. SLATER: What's interesting,
9 Commissioner, is at that point, even though the Soviet
10 Union had dissolved some eight years prior there was
11 still limited information about some of what was
12 happening in the transition. So even though a number
13 of the orders were dropped at that time voluntarily
14 because it was clear that they weren't needed, there
15 was still a real uncertainty about what was going to
16 happen and how fast it would happen in many of those
17 countries, so I think that was -- we didn't have --
18 sort of the industry at least from what I was told
19 didn't have the kinds of information and certainty.
20 Maybe I should let them discuss it, but I will tell
21 you, it's interesting that you observed how unusual
22 that statement is. I will tell you having practiced
23 trade law for this many years this is an unusual
24 industry. There are not keep orders, get orders at
25 any costs. It's a very different approach and many of

1 these companies, as we mentioned in our brief, are
2 very international in their outlook and operations,
3 not just on nitrogen but on a variety of products, so
4 I think it is unusual.

5 MR. PIERCE: Mr. Buckley, would you care to
6 add anything?

7 MR. BUCKLEY: Commissioner, no, I don't
8 think I have much to add on that. I would agree with
9 what Mr. Dietz and Ms. Slater commented about. And,
10 again, Mr. Dietz mentioned this when we looked at the
11 other countries other than Russia and the Ukraine, we
12 felt that there was enough change that had occurred
13 within those countries plus gas pricing in particular
14 in Romania had been moving up, that we felt that we
15 didn't need to maintain those orders because we felt
16 that that product could now start to compete on a fair
17 basis. So that's one of the key reasons why we
18 dropped those orders and said, no, we have to focus on
19 the real problem in the world market and that's Russia
20 and the Ukraine.

21 It's interesting from the standpoint of when
22 you look at trade issues just from a global
23 perspective from all countries, I'm not aware of any
24 other trade case against any other producer on a
25 worldwide basis in any country other than those trade

1 actions that have been against the same two countries,
2 Russia and Ukraine, for urea, also for ammonia
3 nitrate, also for UAN solutions. Trade cases seem on
4 a global basis to become focused on those same two
5 countries for the same reasons, because of how they've
6 behaved in the marketplace and because of the unfairly
7 traded product that they put into world markets.

8 COMMISSIONER PEARSON: Mr. McGlone, did you
9 have anything to add? Or counsel?

10 MR. JUNKER: Mr. Pearson, if I may answer
11 that, since Mr. McGlone was not involved in the
12 process back then. Agrium is not a member of the ad
13 hoc committee and while it supported the original
14 petition and earlier reviews, it's not a member of the
15 committee and so they didn't participate directly in
16 their initial decision. However, having said that,
17 the committee did consult with us and asked us what
18 Agrium's position as a member of the domestic industry
19 was with respect to the coverage of the review. I can
20 represent to you that Agrium concurred in the final
21 decision that the committee made.

22 COMMISSIONER PEARSON: Thank you very much
23 for that background. I very much appreciated your
24 comments.

25 I have no further questions, Mr. Chairman.

1 CHAIRMAN KOPLAN: Thank you, Commissioner.

2 Let me see if there's another round from the
3 dias.

4 Apparently no.

5 Mr. Deyman, does staff have questions of
6 this panel before they are released?

7 I see some heads nodding in the affirmative.

8 MR. FETZER: Jim Fetzer, Office of
9 Economics. Mr. Klett, I have a question on Exhibit 12
10 in your pre-hearing brief, the net back analysis.

11 MR. KLETT: Sure. I don't have it right in
12 front of me, but I think I have in my head what it is.

13 MR. FETZER: The focus is on footnote 2.
14 I'll give you a chance to open that up, which
15 discusses how the ocean freight costs are calculated.

16 MR. KLETT: Yes.

17 MR. FETZER: And that's, I think, a key part
18 of this. I had some difficulty trying to replicate
19 that and I was wondering if you could give in your
20 post-hearing brief some more detail on the data you
21 used. I know you were using ammonium nitrate,
22 I believe, data in some cases. In other cases, you
23 were using data from other countries. If you could
24 just provide that, a little more detail?

25 MR. KLETT: Yes. I will do that. I will

1 provide a breakout of what the alternatives were in
2 terms of the ocean freight and why the number that's
3 in here in this table is there and where it came from.

4 MR. FETZER: Okay. And you cite Census
5 data. That wouldn't be any different than the trade
6 data we have in the data web, would it?

7 MR. KLETT: It shouldn't be, no.

8 MR. FETZER: Okay. And for 2005, you used
9 data for Estonia, Romania and Lithuania. Do they also
10 ship out of the Black Sea or do they go out of the
11 Baltic typically?

12 MR. KLETT: I believe Estonia ships out of
13 the Baltic port. Romania ships out of the Black sea
14 from the port of Costanza. Belarus I think also is
15 Black Sea.

16 MR. FETZER: And Russia and Ukraine usually
17 are the Black Sea?

18 MR. KLETT: Russia, I think, is more often
19 Baltic, but can ship from the Black Sea. Ukraine
20 typically ships from the Black Sea port of Yuzhnyy.

21 MR. FETZER: Okay. So I was just trying to
22 get a sense of if you knew of any other countries that
23 ship out of the Baltic or Black Sea you could North
24 American that might be useful in comparison, that
25 would be helpful in post-hearing.

1 MR. KLETT: I'll look into that.

2 MR. FETZER: And if there's any other data
3 on shipping charges that you know of, either from the
4 Black Sea to the U.S. or from Russia to the U.S. or
5 from the Black Sea to other ports where we could look
6 at some other net backs to other markets, that would
7 be helpful.

8 MR. KLETT: I'll confer with our industry
9 people who may be able to provide that for me from
10 their logistics or shipping departments.

11 MR. FETZER: And also to Respondents, if
12 there's any data that you know of, public data, on
13 shipping from the Baltic Sea to the U.S. or to other
14 ports, if you could put that in a post-hearing
15 submission.

16 Thank you. Staff has no further questions.

17 CHAIRMAN KOPLAN: Thank you for those
18 questions, Mr. Fetzer.

19 Mr. Morgan, do you have any questions of
20 this panel before they are released?

21 MR. MORGAN: Chairman Koplan, just one
22 question to clarify the record. It stems from a
23 multi-part question you had asked and I think the
24 response just kind of got a little confused as a
25 result of it being a multi-part question.

1 CHAIRMAN KOPLAN: Take your time.

2 MR. MORGAN: Actually, for one thing, I'd
3 like to have Ms. Slater sort of elaborate on my fine
4 service so that I could bring that with me to my
5 annual review. I'll print that copy of the transcript
6 and bring it.

7 But seriously, the point was the ability of
8 the subject producers to supply the untreated
9 specialty prill urea to the U.S. market and it got
10 wrapped in with some other products and I had heard
11 Mr. Dietz testify earlier that the untreated specialty
12 type product that they supply is not capable of being
13 supplied by the subject countries and I just wanted to
14 confirm with him that that was the case so that the
15 record was clear on that point.

16 MR. DIETZ: Yes, that is what I said at the
17 time, primarily because of the nature of the prill
18 product that would result and the difficulty in
19 shipping that.

20 MR. MORGAN: Okay. Thank you very much.
21 That was all we have.

22 CHAIRMAN KOPLAN: Thank you for that.

23 I see we have nothing further at this time,
24 so we will break for lunch. We will come back at
25 2:00.

1 I want to thank this panel for all of its
2 testimony and I look forward to the post-hearing
3 submissions that we'll be getting.

4 With that, let me also mention that this
5 room is not secure, so that any business confidential
6 information that the parties have with them you need
7 to take with you and then bring back after lunch.

8 See you back at 2:00.

9 (Whereupon, at 1:03 p.m., a recess was taken
10 until 2:00 p.m.)

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1 A F T E R N O O N S E S S I O N

2 (2:00 p.m.)

3 CHAIRMAN KOPLAN: Good afternoon.

4 Mr. Secretary, we can resume.

5 MR. BISHOP: The second panel, those in
6 opposition of continuation of the antidumping orders,
7 has been seated.

8 Mr. Chairman, all witnesses have been sworn.

9 CHAIRMAN KOPLAN: Thank you.

10 Mr. Morgan, you may proceed.

11 MR. MORGAN: Good afternoon, Chairman
12 Koplan, members of the commission.

13 I'll begin our presentation by discussing
14 several changes in the conditions of competition that
15 have occurred since the original investigation and
16 even since the first review. My colleague, Jay
17 Campbell, will follow me to discuss likely volume and
18 price. Next, Andrew Parsons of Precision Economics
19 will present testimony concerning his conclusions
20 based on his review of the record evidence and the
21 domestic producers pre-hearing brief. Finally, I will
22 offer a few observations on cumulation and on impact
23 in conclusion.

24 In our pre-hearing brief, we cited to a
25 number of changes in the conditions of competition.

1 Today, we limit our focus to three: distinctions
2 between granular and prilled, the degree to which
3 domestic producer shipments are insulated from
4 competition with imports and the fact that prices for
5 urea are established on a world market.

6 By limiting our focus, we no way mean to
7 limit the importance of those other changes. I offer
8 only a few quick points on them.

9 With respect to the domestic industry's
10 current financial position, the facts speak for
11 themselves. Operating income of over \$119 million,
12 translating into a 15.2 percent operating income
13 margin. Cash flow of over \$150 million. The exit of
14 inefficient producers, the ability to thrive in all
15 respects despite increasing natural gas costs.
16 Business model changes that include putting financial
17 performance with sales at market prices as a key
18 objective and instituting forward pricing programs to
19 guard against fluctuation in natural gas costs and
20 forecasts for these conditions to continue in 2005 and
21 beyond.

22 With respect to non-subject imports, it's
23 not in contention that they are necessary to meet U.S.
24 demand. It is agreed that they are necessary for that
25 purpose and that they have increased since the

1 imposition of these orders and now hold a 64 percent
2 U.S. market share. In contrast, U.S. producer share
3 of the market has declined. The vast majority of
4 non-subject imports are granular, but there are at
5 least 1 million short tons of prilled non-subject
6 imports. The trading companies that have been
7 supplying non-subject imports to the U.S. market for
8 nearly 20 years at fair non-injurious prices are those
9 likely to supply any subject merchandise.

10 With respect to demand, there is no question
11 that it is increasing in both the U.S. and the rest of
12 the world. In the U.S., demand is increasing anywhere
13 from 1 to 2 percent or by 85,000 to 170,000 short tons
14 annually, with no increases in U.S. capacity.

15 In the rest of the world, demand is
16 increasing by approximately 3 percent annually. The
17 annual tonnage this translates into is confidential,
18 but appears at the top of page 41 of our confidential
19 pre-hearing brief.

20 Recent statements of domestic producers
21 indicate that global urea supply/demand will remain
22 tight in the coming years.

23 With respect to transportation costs, the
24 record shows and you've heard some testimony today and
25 it also appears in the domestic producers' pre-hearing

1 brief, that both ocean freight and U.S. inland
2 transportation costs are significant factors limiting
3 the competitiveness of imports.

4 The domestic producers reference this and
5 acknowledge it on page 17 of their pre-hearing brief.

6 Transportation costs are high and will be a
7 limiting factor in the volume of any subject imports
8 that might enter and will likely restrict that volume
9 from entering the U.S. unless U.S. prices are
10 sufficiently high.

11 Finally, Russian producers operate under
12 market conditions. While the domestic producers claim
13 to the contrary, the Department of Commerce has found
14 Russia to be a market of economy. Additionally, the
15 international trading companies that the U.S.
16 producers acknowledge as likely to sell any subject
17 merchandise into the U.S. also operate according to
18 market principles.

19 Now, on the distinctions between granular
20 and prilled, we brought samples at the request of
21 Mr. Cantrell and I would hold them up.

22 In my right hand is a sample of prilled urea
23 and in my left a sample of granular. We are happy to
24 provide these for the commission to inspect visually
25 if they so choose or for Mr. Cantrell after the

1 hearing if he would like to look at them.

2 Now, you've heard much said earlier today
3 about granular and prilled urea being substitutable.
4 Quite notably, you heard that they have quite
5 different end uses and, in fact, if I read the silence
6 from the domestic panel correctly, there are no
7 domestic producers currently selling granular for
8 industrial uses and there are no domestic producers
9 selling prilled for agricultural, so we think that
10 says quite a lot and that was not necessarily clear
11 before today's discussion.

12 Page I-14 of the pre-hearing staff report
13 shows that price differences exist between granular
14 and prilled. Now, some of the reasons for this are
15 still unclear, but the differences are approximately
16 \$26 per short ton which translates to 14 percent.
17 Strange that products that are so similar would sell
18 at such dissimilar prices.

19 To our knowledge, not a single company
20 responded to the commission's questionnaire by stating
21 that granular and prilled urea could be substituted in
22 agricultural uses without a significant discount.
23 Even then there are a number of questionnaire
24 responses attesting to the fact that only a portion of
25 purchasers might switch from granular to prilled.

1 CHAIRMAN KOPLAN: Just a second because I'm
2 moving this along.

3 MR. MORGAN: Certainly.

4 CHAIRMAN KOPLAN: Is that the granular, the
5 small bag?

6 MR. MORGAN: That's correct, Chairman
7 Koplan.

8 CHAIRMAN KOPLAN: And this is the prilled,
9 right?

10 MR. MORGAN: That's correct. Yes.

11 CHAIRMAN KOPLAN: Thank you.

12 MR. MORGAN: As the agricultural Retailers
13 Association explained in its letter to the commission,
14 interchangeability between granular and prilled urea
15 is limited or non-existent in the U.S. agricultural
16 market. Whether the urea is applied directly does not
17 alter those limitations.

18 The domestic producers have conceded that
19 granular and prilled urea are not substitutable in
20 blended applications. We heard some testimony about
21 what the percentages were and, as lawyers we shouldn't
22 be doing calculations and we did and we did make a
23 mistake, but we would still submit that the 2004
24 commercial fertilizers report expressly states that
25 those amounts are not those limited to blended

1 applications. But based on the testimony we heard
2 earlier, none of the prilled urea is even going into
3 the agricultural market, so whether 80/20 percent
4 direct application versus blended seems to have passed
5 by in terms of its relevance, given that all prilled
6 urea is going for industrial uses.

7 Finally, one of the Russians producers
8 provided with its questionnaire response a study by
9 CRU International. The entire study was devoted to
10 documenting the differences between granular and
11 prilled urea. The study's contents cannot be
12 disclosed publicly and we have referenced several of
13 them in our confidential pre-hearing brief and we
14 invite the commission to study this in more detail and
15 we note that this was an objective study that none of
16 the parties have commissioned.

17 The domestic producers' shipments are
18 significantly insulated from competition with imports.
19 We know that the U.S. market is split with
20 approximately 70 to 75 percent of urea consumption in
21 the form of granular and 25 to 30 percent prilled.
22 That breakdown is based on Table I-3 of the
23 pre-hearing staff report.

24 Setting aside this clear indication that
25 granular urea dominates the U.S. market, other factors

1 equally show that a significant amount of all U.S.
2 producers' production and shipments is insulated from
3 competition with any subject imports that might enter.
4 For starters, as you heard earlier, there is a
5 specialty prill product that purchasers only can
6 source domestically. Product is not treated with
7 formaldehyde and, as you heard, this is a key
8 ingredient enabling the product to be shipped in bulk.

9 Another limitation concerns purchasers'
10 express need to have domestic product. One major
11 purchaser indicated that at least 75 percent of its
12 purchases must come from domestic sources. Still
13 another limitation concerns advantages that domestic
14 producers enjoy by reason of plant location. You
15 heard a bit about that today and they have
16 acknowledged this in their pre-hearing brief on page
17 17.

18 The Lima facility has reported annual
19 capacity of 362,000 short tons. That's from a public
20 source. And on that same public source, it states
21 that this facility is insulated from imports.

22 We provided this statement and surrounding
23 pages in Exhibit 11 of our pre-hearing brief.

24 Finally, the domestic producers have the
25 ability to export a significant amount of urea from

1 the Kenai facility and all of those exports are
2 insulated from any imports into the U.S.

3 When all of the above amounts are added
4 together the result is the total domestic production
5 and shipments that are insulated from competition.
6 Although the figure is confidential, we provide it on
7 page 28 of our confidential pre-hearing brief. And on
8 this, again, being lawyers we made an inadvertent
9 calculation error or an arguable one at least, but to
10 come completely clean, for the denominator we used
11 U.S. shipments and not total shipments and given that
12 there were some exports or the idea is that this is
13 insulated by virtue of domestic shipments and export
14 shipments, it probably was a better denominator to use
15 the total shipments rather than just the U.S.
16 commercial shipments. But even with that change to
17 the denominator, the number is still significant.

18 The commission should bear a few things in
19 mind when considering that figure. For one thing,
20 there is very little room for dispute over where the
21 numbers came from or how they were derived. In
22 addition, the amount of U.S. production and shipments
23 that are insulated from import competition only
24 accounts for the one that purchaser must source
25 domestically. Unfortunately, not a lot of purchasers

1 responded to the commission's questionnaire and surely
2 this one purchaser is not the only one that must
3 source a certain percentage of its purchases
4 domestically. In this regard, the figure is
5 undoubtedly understated.

6 Finally, an already significant figure gains
7 even greater importance when considered in conjunction
8 with the segmentation and limited interchangeability
9 between prilled and granular urea.

10 When all of these factors are considered
11 together, we submit that a very large portion indeed
12 of the domestic industry's production and shipments
13 will not face any meaningful competition with any
14 subject merchandise that might enter upon revocation.

15 Urea is priced and traded in a world market,
16 another condition of competition to which we direct
17 the commission's attention. The pre-hearing staff
18 report notes this explicitly on page II-2, as do most
19 if not all of the questionnaire responses and some of
20 the testimony you heard this morning. It doesn't
21 really appear to be a point in contention.

22 Now, while there's really no dispute about
23 this, the question becomes what is the implication for
24 U.S. prices and, to a certain extent, volume in the
25 event of revocation.

1 The domestic producers have argued
2 extensively that international trading companies
3 operate in the global urea market and sell to obtain
4 the highest net back price. While we disagree with
5 how the domestic industry conducted some of its
6 analysis and with the resulting conclusions, we
7 largely agree that trading companies respond to global
8 price changes and seek to maximize profit. In a
9 global market, where prices are largely transparent,
10 as the domestic producers have acknowledged, price
11 differentials between markets after factoring in
12 transportation costs will be short lived.

13 In this regard, the domestic producers
14 wrongly characterized Black Sea urea prices as being
15 lower than those from other producing regions, for
16 instance, the Arab Gulf. The reason for this
17 difference is because Black Sea urea has a freight
18 disadvantage to Arab Gulf in Asia, which is the
19 primary region where the two compete. We provided
20 support for this fact in Exhibit 17 of our pre-hearing
21 brief.

22 In the course of preparing for the hearing,
23 we also came upon another apparent discrepancy in what
24 the FOB green market price for Black Sea prilled
25 represents. Green Markets, the publication to which

1 the domestic producers cite extensively, expressly
2 notes that, "Prices listed on an FOB basis are at the
3 producers' plant, gate, terminal or pipeline point."
4 Such prices would not appear to include inland
5 transportation costs to the port or any other charges
6 like handling that might be incurred in getting the
7 merchandise to the port.

8 It is not surprising that an FOB plant price
9 for producers in regions like the Arab Gulf who have
10 ready access to ocean transport and some who even have
11 plants with ocean terminals would defer from FOB plant
12 prices for producers with inland plants like those in
13 the subject countries who must transport the
14 merchandise to the port.

15 In other words, you simply cannot look at
16 Black Sea prices and claim that because they appear to
17 be lower than those from other regions they will be
18 lower priced in the United States. Additionally,
19 doing so ignores the fact that any such merchandise
20 would likely be sold in the United States by the same
21 international trading companies that have fairly
22 competed for the last 20 years and who have a
23 substantial interest in sustaining the profitability
24 of the U.S. market.

25 Finally, and most importantly, the fact that

1 urea prices are established in a world market. It
2 means the impact on revocation on U.S. prices would be
3 minimal.

4 In large measure, the subject merchandise,
5 which already is on the world market, influences the
6 world market place. Renovation will not change this
7 fact.

8 Revocation of the orders also will not
9 change how urea prices are established, which is on a
10 global basis. If U.S. prices, relative to prices in
11 other markets, supply, whether subject or non-subject,
12 will move from the U.S. to those markets. The result
13 will be price equalization across those markets.

14 My colleague, Jay Campbell, will now address
15 the issues of likely volume and price.

16 MR. CAMPBELL: Good afternoon, Chairman
17 Koplman and members of the Commission. My name is Jay
18 Campbell, and I'm also with White & Case, appearing
19 today on behalf of the Russian producers.

20 Building on Frank's discussion of the
21 conditions of competition, I will explain why
22 revocation of the orders will not lead to significant
23 volume and price effects.

24 In the first review, the Commission found
25 that Russia and Ukraine had very low capacity

1 utilization rates; about 50 percent for Russia and 64
2 percent for Ukraine. This finding was key to its
3 conclusion that the subject merchandise would be
4 likely to have significant volume effects.

5 In this review, the picture is very
6 different. Utilization rates for Russia and Ukraine
7 have increased throughout the period of review, and
8 are currently at full levels. Consequently, in order
9 to begin subject merchandise to the U.S. market,
10 subject producers would need to divert shipments from
11 their current market to the U.S. As I will explain,
12 the records shows that a substantial diversion is not
13 likely.

14 In addition, the volume of any future
15 subject imports would not be significant, because the
16 subject imports and the U.S. product would largely be
17 directed to different market segments.

18 Before discussing these points, I would like
19 to address two arguments that the domestic producers
20 raised, in an attempt to diminish the significance of
21 the high capacity utilization rates. First, the
22 domestic producers point to a recent Euro-Chem press
23 release, and argue that that company under-reported
24 its capacity for 2004.

25 This is incorrect. As Euro-Chem indicated

1 in its questionnaire response, it reported design
2 capacity, which is set by the prill tower. The
3 expansion noted in the press release for 2004 refers
4 to improvements that merely enabled the company to
5 achieve production closer to the design capacity.

6 Euro-Chem's questionnaire response also
7 fully accounts for its efforts to expand beyond its
8 design capacity. In addition, it bears noting that
9 Euro-Chem's efforts are based on demand for prilled
10 urea in its current markets. Its expansion efforts
11 are not intended to create excess production for the
12 United States' market.

13 Second, the domestic producers argue that
14 despite high utilization rates, the subject producers
15 have available excess supply, because they "produce
16 urea in massive quantities and then seek to move it
17 into markets." We heard some of this testimony from
18 the domestic panel regarding this again today.

19 As support for this contention, the domestic
20 producers cite to just two recent reports of build-up
21 of inventory at the port. The record evidence for the
22 full period of review, however, indicates that such
23 events are isolated, at best.

24 If the domestic producers' contention that
25 subject producers simply produce as much as possible

1 and then try to move product were true, one would
2 expect to see the subject producers at full
3 utilization in previous years and high inventories.

4 But the record shows that this is not the
5 case. Contrary to the domestic producers' assertions,
6 the subject producers are currently operating at high
7 utilization rates to meet world demand.

8 We can point to recent IFA statistics for
9 the first six months of 2005 that, in fact, show that
10 the Russian and Ukrainian exports have increased in
11 the first six months of 2005, compared to the first
12 six months of 2004. They are still operating at high
13 and full capacity. Thus, the subject producers could
14 supply the U.S. market only by diverting shipments
15 from their current markets.

16 The subject producers would not be likely to
17 do so in substantial quantities, however, because
18 their current primary markets, Latin America and
19 Europe, will remain attractive going forward.

20 The U.S. market is somewhat of a mis-match
21 for Russian and Ukrainian producers, compared to other
22 markets. As noted in the staff report, 80 to 85
23 percent of solid urea in the U.S. is consumed for
24 fertilizer uses, and the U.S. market prefers granular
25 urea for fertilizer.

1 Moreover, setting aside any questions about
2 what percentage of fertilizer applications are direct
3 as opposed to blended, the fact remains that well over
4 two-thirds of urea consumption in the U.S. is of
5 granular urea, as Table I-3 of the staff report
6 indicates. Thus, the U.S. market primarily uses
7 granular urea. Because the subject producers produce
8 only prilled urea, the U.S. is not a logical target
9 market for their product.

10 Unlike the U.S., Latin America predominantly
11 uses prilled urea. This point is not in dispute, and
12 the domestic panel even acknowledged as much today in
13 the hearing. As a proven market, Latin America is a
14 more natural market for Russian and Ukrainian urea.
15 Moreover, because Latin American demand for urea is
16 projected to increase at a faster rate than U.S.
17 demand, Latin America will remain an attractive market
18 for subject merchandise going forward.

19 This is evident from industry statistics we
20 cite at page 42 of our pre-hearing brief. The
21 domestic producers also forecasted that Latin American
22 demand would grow faster than U.S. demand in their
23 questionnaire responses and annual reports. We cite
24 these documents at Footnote 208 of our pre-hearing
25 brief.

1 But in their pre-hearing brief and today,
2 domestic producers claimed that Latin American demand
3 for the subject merchandise is collapsing. In making
4 this argument, the domestic producers point to
5 declining shipments to Brazil in 2005. Yet, IFA
6 statistics show that shipments of subject merchandise
7 to Latin America, as a whole, increased in the first
8 half of 2005, compared to the first half of 2004.

9 Thus, contrary to the domestic producers'
10 contention, the Latin American market remains a strong
11 market for subject merchandise. Moreover, because of
12 projected demand growth and a preference for prilled
13 urea, it is clear that Latin America will remain an
14 attractive market for subject merchandise going
15 forward.

16 Europe is the subject producers' other main
17 market. As the domestic producers note, proximity to
18 markets is a significant competitive factor. Because
19 transportation costs to Europe will always be lower
20 than to the U.S., the European market is naturally
21 more attractive to Russian and Ukrainian producers
22 than the U.S. would be, even if U.S. market prices
23 were somewhat higher.

24 The domestic producers to the EU anti-
25 dumping orders on Russia and Ukraine as significant

1 barriers. But exports of subject merchandise to
2 Europe have increased dramatically during the period
3 of review.

4 I'd now like to respond to a couple of
5 arguments that the domestic producers have advanced to
6 attempt to show that the U.S. market would be more
7 attractive to the subject producers than their current
8 markets.

9 The domestic producers prepared a net-back
10 analysis, which they claim show that U.S. market
11 prices would offer the highest net return to producers
12 and traders of subject merchandise. I will leave it
13 to Andy, our economist, to explain why the net-back
14 analysis is flawed as a theoretical matter.

15 As a factual matter, the net-back analysis
16 cannot be relied upon, because of several problems
17 with the data. The first problem was already cited by
18 Frank Morgan in his testimony, and this refers to the
19 Green Market reported FOB prices for the Black Sea.

20 The effect of this, of using the Green
21 Market's FOB Black Sea prices, which don't account for
22 inland transportation costs, is that it skews the
23 results in favor of finding a positive net-back for
24 sales to the U.S. In addition, the net-back analysis
25 mixes and matches data from a variety of sources,

1 which further undermines its reliability.

2 Finally, the net-back analysis bases the
3 importer mark-up on information from just one trading
4 company, and the listed mark-ups are wildly
5 inconsistent, varying greatly from year to year
6 without rhyme or reason, and remaining constant within
7 each year, despite changes in price.

8 Because of these data issues, the Commission
9 should not rely on the domestic producers' net-back
10 analysis for the proposition that the U.S. market
11 would be more attractive in the subject producers'
12 current markets.

13 The domestic producers also point to a few
14 U.S. shipments after revocation of the anti-dumping
15 orders on urea from Romania, Estonia, and Lithuania,
16 and claim that this is evidence of likely future
17 imports from Russia and Ukraine.

18 Unlike Russia and Ukraine, however, capacity
19 utilization in Romania and Estonia is extremely low.
20 Therefore revocation of the orders on Romania and
21 Estonia is not an appropriate analogy.

22 In addition, it's worth pointing out that
23 there has been no price effect from the imports of
24 prilled urea from Estonia and Ukraine. U.S. prices
25 have continued to increase, regardless.

1 To the extent there are any future imports,
2 the volumes would not be significant, because the
3 subject imports would generally compete in a different
4 market segment than the U.S. product.

5 As Frank discussed, the substitutability of
6 granular prilled urea is limited in the U.S. market,
7 with granular urea preferred for fertilizer, and
8 prilled urea preferred for industrial uses.

9 U.S. production of prilled urea has
10 decreased substantially over the period of review, to
11 the point where U.S. producers predominantly produce
12 granular urea. Conversely, the subject producers
13 produce only prilled urea. It follows then that any
14 future subject imports would be sold to the industrial
15 segment, and not compete directly with the vast
16 majority of U.S. production, which is primarily sold
17 to the agricultural segment.

18 I'd like to footnote here that non-subject
19 imports, which dominate the U.S. market, are
20 increasingly granular. As a result, even if the
21 orders were revoked, non-subject imports will likely
22 continue to dominate the U.S. market. We heard in
23 testimony today from the domestic panel that granular
24 urea is a luxury, compared to prilled urea.

25 Based on this, it's clear that U.S.

1 customers will continue to prefer granular urea, and
2 hence, prefer non-subject granular urea imports, which
3 will become increasingly important over any future or
4 possible subject imports of prilled urea.

5 Moreover, to the extent there are prilled
6 non-subject imports, any future subject imports could
7 be expected to disproportionately displace non-subject
8 imports, rather than U.S. prilled product.

9 It is in this context that trading companies
10 will likely play a gatekeeper role. As suggested in a
11 number of the importer questionnaire responses, to the
12 extent trading companies import subject merchandise,
13 they would likely replace a portion of their non-
14 subject imports, rather than increase their overall
15 level of imports.

16 After all, as long-time participants in the
17 U.S. market, trading companies share an interest in
18 seeing volumes and prices remain at profitable levels
19 in the U.S. market. For these reasons, the role
20 played by non-subject imports further reduces the
21 significance of any future volumes of subject imports.

22 Frank listed other reasons, irrespective of
23 the distinction between granular and prilled urea,
24 that would further limit any future competition
25 between the U.S. product and the subject imports. I

1 won't reiterate those here. But just note that those
2 factors will further reduce the significance of any
3 future subject imports.

4 In sum, the Commission should evaluate the
5 likelihood of significant volume effects with two key
6 points in mind. First, the subject producers do not
7 have access to pass fees and would not be likely to
8 divert substantial shipments from their current
9 markets to the United States.

10 Second, because there would be little
11 competitive overlap between the subject merchandise
12 and U.S. product, any future subject imports cannot
13 reasonably be considered significant.

14 Now I'll move on to price effects. In the
15 event of revocation, any future subject imports would
16 not be likely to have significant price effects for
17 three main reasons. First, the subject merchandise is
18 not priced aggressively. Second, there is a world
19 market for urea. Third, any future competition
20 between the subject imports and the U.S. product would
21 be limited.

22 First points, in the first review, the
23 Commission determined that there would likely be
24 significant pricing effects in part, based on its
25 finding that the subject producers price aggressively

1 in third country markets, and that this caused U.S.
2 prices to decline.

3 The record in this review reviews an
4 entirely different picture. When making the first
5 review, U.S. and world prices have increased
6 dramatically in the current review period, and this
7 has occurred at the same time that subject merchandise
8 has been freely available on the world market.

9 As a result, there is no evidence that the
10 subject merchandise has driven down or suppressed
11 world prices. From this, it is reasonable to infer
12 that subject merchandise is not priced aggressively.

13 Turning to the domestic producers' pre-
14 hearing submission, in Exhibit 23, the domestic
15 producers point to the prices of imports of prilled
16 urea from Estonia and Romania as evidence of likely
17 under-selling by the subject imports. In fact, this
18 exhibit does nothing of the sort, and actually
19 supports our position.

20 First, as I noted earlier, Romania and
21 Estonia do not provide a reasonable example of what
22 would likely happen if the Russian and Ukrainian
23 orders were revoked. Because, unlike the subject
24 industries, Romania and Estonia are at very low
25 capacity utilization levels.

1 Second, the domestic producers' analysis
2 inappropriately compares prices of Romania and Estonia
3 prilled urea with the prices of U.S. granular urea.
4 The Commission has not endorsed such apples to oranges
5 price comparisons in the past, and should not do so
6 here.

7 Third, there are only a limited number of
8 comparisons. Fourth, and most importantly, the
9 domestic producers' Exhibit 23 shows that U.S.
10 granular prices continued to increase, even after
11 Romania and Estonian imports of prilled urea began
12 entering the U.S. market.

13 Thus, even if the domestic producers
14 analysis could be considered reasonable evidence of
15 under-selling, which it cannot, it is clear that the
16 Romania and Estonian imports, which are prilled, have
17 neither depressed nor suppressed U.S. prices of
18 granular urea. This is consistent with the limited
19 substitutability between granular and prilled urea.

20 Second point, there is a world market for
21 urea. This means that although regional prices may
22 vary in the short term, prices converge over time as
23 supply shifts from lower priced to higher priced
24 markets.

25 In this regard, the domestic producers offer

1 their net-back analysis to show that subject
2 merchandise would be diverted to the U.S. As I have
3 previously explained, however, this analysis is
4 flawed. Even assuming the U.S. market offered higher
5 net-backs, however, this does not provide evidence
6 that subject imports would under-sell and have
7 significant price effects.

8 The domestic producers note and actually
9 emphasize that trading companies can play an important
10 role in the urea market, and would divert shipments to
11 the U.S. market if the U.S. market offered higher net-
12 backs.

13 We agree. But then the domestic producers
14 turn around and conclude that if U.S. net-backs were
15 higher, the trading companies would under-sell in the
16 U.S. market. This defies common sense. By under-
17 selling, trading companies would undermine the reason
18 behind shifting sales to the U.S. market in the first
19 place; which is to take advantage of higher prices.

20 Consequently, it is more reasonable to
21 conclude that if U.S. prices offered higher net-backs,
22 trading companies would set prices so as to maximize
23 profits, not under-sell.

24 Remember, the trading companies that would
25 possibly supply subject merchandise to the U.S. are

1 the same companies that currently supply non-subject
2 imports to the U.S. market. The domestic producers
3 concede that the non-subject imports are fairly
4 traded. Why, then, would the trading companies change
5 their pricing behavior for subject merchandise? The
6 only reasonable answer is that they wouldn't.

7 As current players in the U.S. market,
8 trading companies have just as much interest in high
9 U.S. prices as do the U.S. producers. Most
10 importantly, however, because urea is a world market,
11 revocation of the orders would not be likely to have
12 depressing or suppressing effects on U.S. prices.

13 The domestic producers recognize that if the
14 U.S. market offers higher let-back, supply would be
15 diverted from third country markets to the U.S. But
16 this also works in reverse. As a result, even if
17 subject merchandise were deferred to the U.S. market,
18 there would not be any significant price effects.

19 Because the subject producers are at full
20 capacity, any shifting of subject merchandise from
21 other regions to the U.S. market would merely reduce
22 supply, and thus lead to a price increase in the
23 market left behind. This, in turn, would prompt U.S.
24 producers and trading companies to divert sales from
25 the U.S. to that third country market.

1 The up-shot is that even if one assumed
2 adverse price effects for the sale of argument, this
3 would lead to a shifting of supply from the U.S.
4 market that would off-set any downward pressure on
5 U.S. prices.

6 Third point, any future competition between
7 the subject imports and U.S. product would be limited.
8 As I explained previously, any future subject imports
9 would largely compete in a different market segment
10 than the U.S. product. This condition of competition
11 further reduces the likelihood of significant price
12 effects. The domestic producers' reference to the
13 Romania/Estonia revocation supports this argument.

14 Again, domestic producers' Exhibit 23 shows
15 that despite alleged under-selling by imports of
16 prilled urea from Romania and Estonia, U.S. granular
17 prices continued to increase.

18 In conclusion, any one of these points is
19 sufficient to support a negative likelihood
20 determination with respect to price effects.
21 Together, the conclusion is that revocation would not
22 be likely to lead to significant price effects; thank
23 you.

24 MR. PARSONS: Good afternoon, my name is
25 Andrew Parsons, and I'm Vice President of Precision

1 Economics. Our analysis of the U.S. urea industry
2 found it to be financially healthy. In addition, we
3 found that Russian and Ukrainian production is already
4 fully in the relevant market for urea, the world
5 market.

6 Further, recent structural changes in the
7 U.S. and world urea markets, including the lowered
8 level of substitutability between domestic product and
9 subject imports, will make it unlikely to see a
10 significant shift of Russian and Ukrainian exports to
11 the U.S. market, should anti-dumping duties be
12 removed; unless the U.S. market offered an opportunity
13 for the subject imports to price higher than in other
14 countries to which they export.

15 The U.S. producers of Urea today describe
16 their industry as vulnerable. However, our
17 examination of the industry consistently found
18 domestic urea manufacturers to be in better financial
19 health today than both at the time of the original
20 investigation and the first sunset review, and in
21 better health than typical manufacturing industries.
22 This can be seen in the industry's current high
23 profits and margining power, brought on by
24 consolidation.

25 The urea manufacturing industry enjoyed very

1 high operating profit margins in 2004 of 15.2 percent.
2 It would be even higher if we did not consider the
3 negative impact of firms that have since left the
4 industry. These profit margins are much higher than
5 those seen in other manufacturing industries in the
6 United States.

7 Besides an indication of financial health of
8 the industry, these higher profit margins point to
9 changes in the U.S. industry's structure and market
10 power over the past few years.

11 From 2000 to 2002, increasing natural gas
12 costs forced the U.S. urea industry to consolidate.
13 Non-profitable businesses dropped out of the U.S.
14 market, reducing domestic supply; causing remaining
15 producers to thrive by increasing prices at a faster
16 rate than their costs; a point the U.S. District
17 concedes. Additionally, as U.S. production declined
18 by approximately five percent on a unit basis, U.S.
19 consumption has increased by nearly 15 percent since
20 1999.

21 This market dynamic has strengthened the
22 industry's bargaining power with customers. As
23 natural gas prices have continued to rise, so have
24 operating margins of the U.S. producers, an indication
25 of U.S. producers' market power to more than pass on

1 higher natural gas costs to their customers.

2 Going forward, U.S. natural gas prices are
3 forecasted to fall over the next five years in the
4 United States. The exact opposite is expected to take
5 place in Russia and Ukraine.

6 In agreement with the European Union, and to
7 help with gaining admittance the World Trade
8 Organization, Russia has begun increasing gas prices,
9 and is expected to approximately double these prices
10 by 2010.

11 In addition to increasing prices of natural
12 gas for both subject countries, transportation costs
13 have also increased due to higher fuel costs. These
14 structural changes in costs between the U.S. producers
15 and subject producers will strengthen the already
16 solid foundation that the more efficient U.S.
17 producers have created within the U.S. market.

18 A structural change has also occurred
19 regarding substitutability between imports and U.S.
20 domestic urea. In fact, evidence shows a significant
21 decline in substitutability between the two products.
22 The elasticity of substitution has dropped from a
23 range of five to seven, as estimated by the
24 Commission's staff in 1995, to a lower two to four
25 range, almost a decade later.

1 U.S. urea producers and importers echo this
2 decrease in substitutability in many of their
3 comments. In general, producers and importers stated
4 that a 10 to 20 percent discount would be needed for
5 them to switch products.

6 This required discount for prilled urea may
7 result from, as stated by the Commission staff,
8 granular urea being the product of choice for
9 fertilizer, due to its physical characteristics.

10 One importer went so far as to say that,
11 even if heavily discounted, only a small amount of
12 their granular urea demand would switch to prilled
13 urea. Commodity products would not require such deep
14 discounting for customers to have an incentive to
15 switch.

16 U.S. producers have chosen to disagree with
17 the IT staff's modest substitution elasticity
18 estimate, based in part on correlations in the two
19 prices. As the staff has indicated, correlations do
20 not show causation and/or a relationship, and they do
21 not explain why purchasers would require a 10 to 20
22 percent or even greater price difference to induce a
23 shifting of products.

24 Such behavior is consistent with the
25 commodity nature of the products espoused by the U.S.

1 producers. Not only has the domestic urea industry
2 strengthened over the past few years; but so, too,
3 have international markets.

4 World urea markets are forecasted to
5 continue to be healthy, in part, due to the forecasted
6 reduction in Chinese exports. This reduction in net
7 exports has already begun. In the first six months of
8 2005, net exports from China have declined by
9 approximately 32 percent, relative to last year.

10 Also supporting this trend is the forecasted
11 rise in U.S. and world urea consumption. World
12 consumption is expected to rise at a rate of three
13 percent, a faster rate than the United States, which
14 is forecasted to rise at one to two percent. This
15 higher world growth may help explain why U.S.
16 producers have increased their exports almost 600
17 percent since 1999.

18 Analysts and U.S. producers have also
19 predicted world markets to remain tight and world
20 prices to remain firm. The August 18th, 2005 Proffery
21 Report states that, "There appears to be no real
22 demand reason for the current price rally to become a
23 non-stop up trend."

24 Supporting this view is Agrium, CEO, Mike
25 Wilson, who commented earlier this year that, "Demand

1 and pricing for both urea and pot ash have continued
2 to strengthen and that's likely to continue."

3 U.S. producers have argued that Russia and
4 Ukraine have lost demand in key world markets over the
5 past year, and this additional supply could be shipped
6 into the U.S. market. However, due to tight
7 international urea markets, any loss of demand in one
8 country has already found other markets.

9 This is confirmed by the high capacity
10 utilization rates found for both Russian and Ukraine
11 in 2004, rates that are forecasted to rise in 2005, as
12 shown by the U.S. producers' pre-hearing brief,
13 Exhibit 1.

14 These high capacity utilization rates also
15 prevent Russia and Ukraine from increasing production.
16 They could export to the United States, but only by
17 diverting sales that currently they are making
18 elsewhere. This is in stark contrast to the examples
19 of Romania and Estonia, provided by the U.S.
20 producers; countries that both operate well below full
21 capacity.

22 As U.S. producers have also noted, the world
23 urea market is transparent, due to extensive reporting
24 on the current market conditions through various trade
25 publications. This results in similar pricing in

1 different regions of the world with a relatively small
2 price range.

3 Given this transparency, inefficiencies in
4 the world urea market that would allow for abnormal
5 returns would be unlikely and, at best, short lived.
6 As other world producers discovered the price
7 inefficiency, they would quickly adapt their strategy
8 to take advantage of the situation, which would
9 quickly correct the market to an efficient state.

10 As such, the net-back analysis shown by the
11 U.S. producers between the prilled U.S. Gulf price and
12 the prilled Black Sea price is unlikely to define the
13 state of the industry, as other non-subject producers
14 would quickly exploit such inefficiencies in the urea
15 world market.

16 The domestic industry has been shown to have
17 undergone structural changes that have led to higher
18 profitability. Similarly, changes in cost structure
19 for the Russian and Ukrainian urea producers, in
20 contrasting limitations restricted by exports,
21 restrict any exports they could send to the United
22 States in the future. Combined with a tight and
23 transparent world market, both Russia and Ukraine
24 would be unlikely to shift significant volume to the
25 United States, should the anti-dumping duties be

1 removed.

2 As U.S. producers have only comprised one-
3 third of the U.S. industry today, with much of their
4 product insulated from exports, any Russian or
5 Ukrainian supply to the U.S. market would most likely
6 replace non-subject country imports; thank you.

7 MR. MORGAN: Thank you, Andy; I will keep my
8 remarks on cumulation and impact short and I offer
9 them in conclusion.

10 As for cumulation, we discussed the factors
11 that warrant the cumulation at pages five to eleven of
12 our pre-hearing brief. I'll not go through each of
13 them now.

14 The one thing I will note is that to the
15 extent the Commission finds that Ukraine would begin
16 producing granular urea, that would be an additional
17 difference between the two countries' industries that
18 would warrant the Commission exercising its decision
19 not to cumulate.

20 With respect to impact, the domestic
21 producers have offered two estimates of the impact of
22 revocation. These estimates are confidential, but
23 appear at Exhibit 25 of the domestic industry's pre-
24 hearing brief.

25 Those figures, however, do not account for a

1 number of key facts. For one thing, they do not
2 account for the fact that the same international
3 trading companies that have been supplying U.S. market
4 for nearly 20 years with non-subject imports at fair,
5 non-injurious prices, are those that would likely
6 supply any subject merchandise; and the record
7 evidence shows they would do so as an alternate source
8 to existing prilled supply.

9 These market participants have an incentive
10 and interest equal to those of domestic producers in
11 seeing high U.S. prices, and in this regard, can be
12 expected to play a gatekeeper role in terms of the
13 volumes and prices of any subject imports that might
14 air.

15 But the domestic producers figures also do
16 not account for the degree to which U.S. production
17 and shipments of granular and prilled urea are
18 insulated from any competition with imports.

19 The domestic producers claim to have
20 provided for a proportionate displacement of domestic
21 and non-subject imports. The facts, however, show any
22 such displacement would be of non-subject imports of
23 prilled, almost exclusively.

24 First, companies that responded to the
25 Commission's questionnaire indicated as much. Second,

1 the questionnaire responses indicate that subject
2 merchandise would be an alternative to current
3 services; again, evidencing that any subject
4 merchandise would replace current non-subject prilled
5 imports.

6 Still another factor the domestic producers
7 have not accounted for is the fact that different
8 market segments exist. I think we've heard that
9 pretty clearly today, and that there is limited inter-
10 changeability, if any, between products within those
11 segments.

12 Some 75 percent of the U.S. market currently
13 uses granular urea. In addition, not all domestic
14 producers manufacture both forms, as you heard today,
15 and prilled urea accounted for only 26 percent of the
16 domestic industry's shipments in 2004; again, a figure
17 that is down over 50 percent since 1999 alone.

18 Starting with the domestic producers' own
19 worst-case scenario analysis and factoring in the
20 above, there is no way you end up with a figure at the
21 lower end or even the one at the higher end; neither
22 of which, we submit, are particularly demonstrative of
23 a likelihood of future injury in such a perspective
24 analysis.

25 Based on the conditions of competition that

1 will prevail upon revocation, there is no likelihood
2 that any subject merchandise would injure the domestic
3 industry, as a whole. We respectfully submit to the
4 Commission that circumstances warrant revocation of
5 these orders; thank you.

6 CHAIRMAN KOPLAN: That concludes your
7 presentation?

8 MR. MORGAN: Yes, Mr. Chairman.

9 CHAIRMAN KOPLAN: Okay, thank you very much;
10 I appreciate your direct presentation, and I will
11 begin the questioning.

12 Mr. Campbell, I thought you might get into
13 this when you made mention of Brazil and talked about
14 declining quantity. But actually, there's another
15 facet of that, that I thought you might cover and
16 didn't. So let me walk through this slowly, if I
17 could. What I'm looking at is the ad hoc brief, and
18 it begins on page 49.

19 They say, another indicator that Russian and
20 Ukrainian urea would under-sell U.S.-produced urea is
21 that they under-sell other countries' exports into
22 non-U.S. markets.

23 The Commission considered this type of
24 analysis in the first sunset review, and considered it
25 indicative of aggressive pricing behavior. Recent

1 comparisons also demonstrate that this behavior is
2 continued, and they cite to their Exhibit 27, which is
3 a table entitled, "Urea Import Broadens Into Other
4 Americas in Metric Tons," and the source for that is
5 imports into referenced countries from the global
6 trade information services, and it covers our period
7 of review, all the way through July of this year.

8 They say that that shows average unit values
9 into the three Americas markets, Columbia, Brazil, and
10 Canada, that are export destinations for both Russian
11 and Ukrainian urea. The Columbia, Russian and
12 Ukrainian imports were lower priced than imports from
13 other countries, and this gap widened in 2004 and
14 2005.

15 For Columbia, import values are reported on
16 a CIF import port basis, and demonstrate that Russian
17 and Ukrainian imports have been, on average,
18 significantly lower priced than other imports into
19 Columbia. The unit value comparisons for Brazil and
20 Canada are only on an FOB export port basis. So the
21 differences in ocean freight from the different
22 sources applied could explain some differences.

23 However, they say the trends show an
24 increasing gap between the Russian and Ukrainian
25 import unit values and import unit values from other

1 countries in 2004 and then from 2005, indicating
2 increasing price aggressiveness from Russia and
3 Ukraine for sales into those markets.

4 While not dispositive, these pricing
5 relationships provide additional support for finding
6 that Russia and Ukraine will likely under-sell both
7 non-subject imports and U.S. producers, should the
8 orders be revoked. I'd like you to comment on that.
9 I'm sure you've read the brief, but I just wanted to
10 put that out and hear what you have to say about it.

11 MR. CAMPBELL: Thanks, Chairman Koplan; we
12 submit that this piece of evidence, this exhibit,
13 actually is not at all conclusive, or does not
14 demonstrate likely under-selling.

15 CHAIRMAN KOPLAN: Well, let me just
16 understand, are you saying that the numbers in this
17 exhibit are wrong?

18 MR. CAMPBELL: No, I'm not suggesting that,
19 Chairman Koplan, sorry.

20 CHAIRMAN KOPLAN: Okay, so as far as the
21 table is concerned, you accept the numbers in the
22 table?

23 MR. CAMPBELL: I presume that they were
24 compiled accurately, yes. I have no reason to believe
25 they're false.

1 CHAIRMAN KOPLAN: I'm sorry, there was also,
2 I should mention to you, a second page of that table
3 in Exhibit 27. That's entitled, "Urea Import AUVs
4 Into Other Americas in Metric Tons." So it's actually
5 two pages, but the source is the same for both pages.

6 MR. CAMPBELL: Right, and I thought your
7 question was directed to the AUVs.

8 CHAIRMAN KOPLAN: It is.

9 MR. CAMPBELL: Right.

10 CHAIRMAN KOPLAN: Yes, it is.

11 MR. CAMPBELL: Well, I think there are
12 several reasons why this exhibit cannot be considered
13 likely evidence of under-selling.

14 First of all, you know, under-selling is
15 measured by the importers resale price in the country.
16 So AUVs don't provide a reasonable proxy for under-
17 selling in the manner that the Commission defines
18 under-selling. Second, as noted, only Columbia prices
19 AUVs on a CIF basis, which would include the cost of
20 transportation.

21 CHAIRMAN KOPLAN: They acknowledge that.

22 MR. CAMPBELL: Right, I know they
23 acknowledge that. But if you look at that country,
24 you know, the evidence is mixed. There isn't clear
25 under-selling throughout. There's fluctuation, and

1 that certainly suggests that prices are fluctuating
2 for exporters from different countries. It doesn't
3 reflect that the subject merchandise is aggressively
4 priced consistently at all, or even generally.

5 There's a problem with the other two
6 countries relying on FOB prices. As Frank pointed
7 out, there are some issues with FOB prices. In the
8 Green Markets' data, at Exhibit 15, page five of the
9 domestic producers' pre-hearing submission, Green
10 Markets acknowledges that oftentimes, it's not
11 calculating FOB at prices at the port of shipment.
12 It's often at the producers' plant; and we know that
13 some of the subject producers have very inland
14 locations.

15 Conversely, we don't know where these other
16 imports are coming from. They are just labeled "all
17 other," and some of these producers might have
18 significant site advantages and be located much closer
19 to the shipping port, if not on the shipping port.

20 So really, this can't be relied upon.
21 Certainly, it is not demonstrative of likely under-
22 selling or aggressive pricing in third country
23 markets; thank you.

24 CHAIRMAN KOPLAN: Thank you; I appreciate
25 your response. I will also appreciate hearing from

1 the other side, post-hearing, in terms of the other
2 comments you've just given. So thank you very much.

3 Mr. Morgan, are Russia and Ukraine's
4 industrial natural gas prices set at below class by
5 the state and, thus, non-market based? I know you
6 said they consider it a market economy. But this is
7 specifically going to the question of how their
8 natural gas prices are set. Are they still set by the
9 state?

10 MR. MORGAN: Chairman Koplan, to be honest,
11 that's not an issue we've gone into in any detail with
12 our client; the reason being, we think the whole
13 natural gas cost issue is a bit of a red herring, in
14 terms of the Commission's analysis.

15 The domestic industry is trying to latch on,
16 for some reason, to point to unfair trade as a reason
17 for wanting to maintain these orders.

18 Frankly, the type of situation they're
19 talking about on natural gas costs in Russia relates
20 to what the Department of Commerce does in a subsidy
21 investigation. They look at whether or not there's
22 state-sponsored subsidization ongoing. That's not
23 what the Commission has ever looked at, in terms of
24 its injury analysis and in terms of an under-selling
25 analysis.

1 CHAIRMAN KOPLAN: Let me just jump in, if I
2 could, and maybe this will help.

3 MR. MORGAN: Sure.

4 CHAIRMAN KOPLAN: In their brief, there are
5 three pages, 12 to 15, where they argue this point.
6 Assuming that they're right, and these prices are
7 still set by the state, if you would go back, if
8 there's a way you could quantify for me what urea
9 production cost advantages would accrue to the subject
10 countries, beyond those that non-subject countries
11 have, and close the circle for me by also detailing
12 the advantages of Russia and the Ukraine's state-
13 controlled system to that of the U.S., and how our
14 prices are set -- if you could provide me with the
15 details, as well, of any possible reforms to the
16 state-controlled system that relate to natural gas
17 prices. You could do this post-hearing, obviously.

18 I appreciate the fact that you haven't gone
19 into it. But it does raise a question with me, and I
20 would be interested in getting that information from
21 you, if you can get that from your client.

22 MR. MORGAN: Chairman Koplan, we'll do
23 everything we can to get you some more information on
24 that. One thing I would point you to, at least as far
25 as the sort of effects, vis-a-vis other countries'

1 natural gas costs, we have a table in our pre-hearing
2 brief that gives an indication of that. I'm
3 struggling to find that page. We found this actually
4 in one of the domestic producer's web sites. The web
5 sometimes is a helpful place.

6 CHAIRMAN KOPLAN: Well, if you want, you can
7 just cite the table when you respond.

8 MR. MORGAN: I'll be happy to do that. But
9 the one thing I did want to note was that even with
10 this so-called lower production cost -- and here, I've
11 found it. It's on page 50. Russia is at
12 approximately 90 cents and Ukraine is at approximately
13 \$1.60. This is their world natural gas costs in 2004.

14 You have the Middle East and North Africa,
15 who are both at 75 cents, lower than either of the
16 subject countries. You have Venezuela at 80 cents,
17 and you have Argentina at \$1.50. These are sort of
18 the major sources of the non-subject imports, and we
19 will get into more detail on that in response to your
20 request. But I did not want to leave that circuit
21 open.

22 CHAIRMAN KOPLAN: Thank you for doing that;
23 I appreciate it. I see my red light has come on.
24 I'll turn to Vice Chairman Okun.

25 VICE CHAIRMAN OKUN: Thank you, Mr.

1 Chairman, and let me join the Chairman in welcoming
2 this panel of witnesses this afternoon. I appreciate
3 you being here and taking the time to answer our
4 questions.

5 Let me start with the domestic industry this
6 morning on world supply and demand. With the
7 Petitioners this morning, we talked a little bit about
8 what the situation is, going forward. For purposes of
9 our post-hearing brief, we have Table 410 and 415,
10 that look at global supply and demand conditions. It
11 shows, based on that, that public source and supply
12 increasing faster than demand, based on really
13 starting in 2006 in a greater degree.

14 I wondered if you have any other projections
15 or anything you're looking to, to account for what
16 we're likely to see in the reasonably foreseeable
17 future with regard to the world supply and demand
18 situation.

19 MR. CAMPBELL: Yes, we do, Commissioner
20 Okun. First, we would direct you to our Exhibit 17 at
21 page 74, which is a study completed by YAR
22 International. They note the increases in capacity
23 that are planned for years going forward. But they
24 also indicate or forecasted what the increases in
25 capacity will be in line with increases in world

1 consumption. Therefore, they project that for urea,
2 the world market will remain relatively tight through
3 2008.

4 They note 2006 is a possible exception. But
5 they also indicate that most of the capacity being
6 added in 2006 is in China. China, as we know, has
7 recently imposed the export tax, and has concerns
8 about satisfying its domestic fertilizer demand.

9 So the report footnotes the year 2006, and
10 notes that if China continues these policies of trying
11 to ensure that it has sufficient quantities of solid
12 urea and restricts exports, then even for the year
13 2006, we are likely to continue to see a tight market.

14 In addition, we would point you to Exhibit
15 20 of our pre-hearing submission, which is a report by
16 PCS. It's called their 2005 overview. Again, that's
17 Exhibit 20 at pages 45. They have a graphic that is
18 restricted to urea. In fact, I believe it's entitled,
19 Urea Tight Markets Projected or World Market is to
20 Remain Tight, something to that effect. They project
21 a tight supply and demand world balance through 2007.

22 So there are differences of opinion.
23 Perhaps the domestic producers are able to cite to
24 some forecast that supply and demand will be less
25 tight. But they were crying wolf back in October of

1 2004, and saying that there was soon to be a glut in
2 the world urea market. Certainly, that hasn't
3 happened yet. So we would direct you to the other
4 studies and forecasts of the domestic producers
5 themselves that show that tight world markets are
6 expected to continue.

7 VICE CHAIRMAN OKUN: Thank you, I appreciate
8 that. I had seen that your Exhibit 17 had reminded
9 me, and I think Commissioner Aranoff had asked a
10 question about this morning, which is, you know,
11 whether this was an industry where you tend to have
12 capacity come on line. These are really big projects
13 when they come on line, so you have -- I have a cold,
14 so I'm having a hard time thinking up here -- usually,
15 capacity comes on in a clump and, therefore, it takes
16 a while to be used. Would you disagree with that?

17 MR. CAMPBELL: That once capacity comes on
18 line, there's -- it takes a while --

19 VICE CHAIRMAN OKUN: It comes out in big
20 clumps. It's a clumpy capacity addition, because
21 they're big projects when they actually come on. So
22 that, you know, it's not like it goes in line nicely
23 with demand, because these are such big projects. You
24 have to bring them on and then wait for the market to
25 suck them up.

1 MR. MORGAN: I had given some thought to
2 this, Vice Chairman, Okun, if I may. One thing that I
3 think you have to factor is the possibility that as
4 plants are coming on line and others are going off --
5 you heard that there was a significant number of
6 prilled production coming off line and we, probably
7 for our post-hearing, are going to look a little
8 closer at how the new plants coming on line have sort
9 of been offset by any production coming off line.
10 But, it certainly does seem to be the case that you do
11 have production coming on line all at once, or at
12 least that's what the domestic industry is pointing
13 to. I don't know if historically that has happened
14 for this particular product.

15 Then the other thing I think that's
16 important to note is the fact that all of this is
17 granular capacity. None of it is of prilled. And to
18 the extent that the subject countries continue to
19 produce and sell prilled, that will be the significant
20 distinction between them and these new facilities that
21 are coming on line, which will all be granular.

22 VICE CHAIRMAN OKUN: I'm not sure I'll have
23 a further opportunity to talk about that. I just want
24 to just finish on a couple of these projections. With
25 regard to the European Union, and I know you talked

1 about that in your brief and the attractiveness of
2 that market to Russia, even with a market with a price
3 undertaking in place and antidumping proceedings, do
4 you have any other data in terms of projections for
5 the EU in the recently foreseeable future, to indicate
6 how that market is likely to -- because a lot of these
7 -- a lot of what I've seen earlier, again, these
8 global projections are not broken out by region.

9 MR. MORGAN: We have the nature of some of
10 the studies that we get from our client. We're not
11 always sure if they're confidential or if they're able
12 to be disclosed publicly. But, we will provide some
13 information on that in our post-hearing brief.

14 VICE CHAIRMAN OKUN: Okay, if you can do
15 that. And I think I know you did do that with regard
16 to -- I don't think you have it in your testimony --
17 you talked about the additional information with
18 regard to the Latin American market. And if there's
19 anything further with regard to that for post-hearing
20 that you can share from your client's perspective, I
21 think that will be very helpful, as well.

22 MR. MORGAN: We'd be happy to do that.

23 COMMISSIONER OKUN: Okay. And then, do you
24 take issue at all or have other analysts, who view
25 whether or not the Chinese will further reduce the

1 export tax in the near future? I mean, you've heard
2 the testimony from this morning and the information
3 they've provided. Yes, Mr. Parsons?

4 MR. PARSONS: Yes. In Agrium annual
5 meetings report in May, they had projected that
6 Chinese export -- net exports will continue to go
7 down, not only in 2005, but also in 2006. So, they
8 are currently saying that they have been aware of this
9 and that analysts had predicted that the Chinese would
10 reduce their tariff and go to a zero state. So, based
11 on Agrium's projections, we still think that in 2006,
12 that net exports will still go down.

13 VICE CHAIRMAN OKUN: Okay. All right.
14 Well, if there is any other information or any other
15 industry data that the industry uses or public data,
16 I'd appreciate that for post-hearing, as well.

17 And then, Mr. Morgan, I wanted to go back to
18 one thing from your testimony just to make sure that I
19 understand it, so that I can look at this purchaser
20 testimony. But, you had talked about a major
21 purchaser indicating that at least 75 percent of its
22 purchases must come from domestic sources. Did you,
23 with that, say how big -- whether that -- I thought
24 you said something that's not in your written
25 testimony after that and I just wanted to make sure

1 that I caught it, so I can go back and look at that
2 purchaser.

3 MR. MORGAN: I think I'm getting all -- I
4 can't recall if I did say anything afterwards. If
5 it's -- you factor in the analysis we do, in terms of
6 the degree to which there's insulation from
7 competition with the imports, I believe I may have
8 cited to a staff report page where that number is
9 provided publicly. The purchaser identification is
10 obviously not. But, we do also view that this was
11 just one purchaser that reported this and there was a
12 limited purchaser response. And it is our view,
13 although we haven't any way of quantifying what the
14 degree to which other purchasers in the U.S. market
15 have similar types of requirements.

16 VICE CHAIRMAN OKUN: Okay. It was that part
17 of it that you were saying that was your view, that
18 would have applied to others, but there wasn't any
19 documentation for that. Is that --

20 MR. MORGAN: That's correct. We just don't
21 have anything on the record.

22 VICE CHAIRMAN OKUN: Okay; okay. All right.
23 I appreciate the -- then, I guess I will turn a little
24 bit to the -- or talk a little bit about -- well, my
25 yellow light is on. I'll wait. Let someone else get

1 into granular and prilled, or I'll come back to it.

2 Thank you, very much.

3 CHAIRMAN KOPLAN: Thank you, Commissioner.

4 Commissioner Hillman?

5 COMMISSIONER HILLMAN: Thank you and I, too,

6 would join my colleagues in thanking you, very much,

7 for being here. We appreciate it.

8 Let me go ahead and start on this issue of
9 trying to understand the prilled versus granular
10 arguments that you're making. And let me start first
11 with from what you know, the prilled product coming
12 out of Russia, into what markets or end uses is it
13 sold? Do you have a sense of how much goes into
14 industrial, as opposed to feed, as opposed to
15 fertilizer uses?

16 MR. MORGAN: We can find out the
17 percentages. The difference is the U.S. market is, I
18 guess one would say, more advanced in its preference
19 for granular versus prilled in the segmentation that
20 occurs here. So, for instance, in Russia, and the
21 primary markets in Europe and Latin American, they
22 still use prilled for agricultural uses. The degree
23 to which there's Russian product going into industrial
24 uses, we have to check back and get that to you post-
25 hearing.

1 COMMISSIONER HILLMAN: And do you know
2 whether any of the Russian or Ukranian product is
3 micro prilled?

4 MR. MORGAN: My understanding is that none
5 of it is, but we can confirm that for you in the post-
6 hearing, as well.

7 COMMISSIONER HILLMAN: Okay; okay. All
8 right. I think it would be helpful to us to get some
9 of that on the record.

10 Then the domestic producers have stated that
11 this one Ukranian producer has invested or will invest
12 in the equipment to produce the granulated product.
13 And I wondered if you can tell us that take on that
14 and, if so, when?

15 MR. MORGAN: Well, I think you heard from
16 Mr. Buckley earlier that it takes at least 12 to 18
17 months to bring a facility -- well, not construction
18 within a facility, but to revamp a facility to product
19 granular. I don't know what stage it is in and we can
20 certainly check with our clients and see if they have
21 any insight into the stage of development. We can
22 also do some of our own research on line, too --

23 COMMISSIONER HILLMAN: I think --

24 MR. MORGAN: -- where we can find out for
25 you.

1 COMMISSIONER HILLMAN: That will be helpful.
2 You, also, I think, in your testimony referred to one
3 million tons of non-subject prilled imports. Again,
4 same kind of question, do you know, from your
5 perspective, what applications these imports are used
6 for, fertilizer versus industrial versus feed?

7 MR. MORGAN: From talking to the folks we
8 have in the market, it does appear that they're used
9 basically the same way that the U.S. produce
10 materials. The industrial takes prilled and it's used
11 for the same types of resin manufacture and animal
12 food --

13 COMMISSIONER HILLMAN: Are you saying this
14 one million tons of non-subject, in your view, is not
15 going into the fertilizer market?

16 MR. MORGAN: That's my understanding. I
17 couldn't tell you with absolute certainty, but we can
18 check further into it. But, understanding that non-
19 subject prilled goes predominantly, if not
20 exclusively, for industrial end use.

21 COMMISSIONER HILLMAN: Okay. And then I
22 think you heard this morning, at least I had some
23 questions about the relative price between granular
24 product versus prilled product, in part, because, in
25 general, the -- I don't want to call it anecdotal, but

1 a lot of the testimony would suggest that granular is
2 a premium product and trades for a premium price, and,
3 yet, a lot of our pricing data shows the opposite.
4 You, in your testimony, I think, had cited the data on
5 page 114 of our testimony and noting this \$26 per ton
6 difference. But, even that data, also, had prilled
7 higher than granular. Again, I would just like your
8 take on this issue, which one of the two, in your
9 view, is higher priced?

10 MR. MORGAN: The way I see the data, and
11 it's difficult to say that the pricing data you've
12 collected from the producers suggests that the
13 specialty product, alone, is what accounted for all of
14 the difference between the prilled and granular, and I
15 believe it was said something like it only accounts
16 for 10 percent of one company's sales. I think it
17 reflects the fact that there's a supply-demand
18 disconnect, in that prilled being a product that's
19 preferred for industrial and with very limited U.S.
20 supply and some non-subject supply is commanding a bit
21 of a premium for the industrial segment over granular.
22 And then it appears that there's really no use of
23 prilled in the agricultural segment. To be honest
24 with you, we tried to figure some consistent way of
25 explaining that, but all of the anecdotal evidence

1 that we examined, as well, suggests that granular is
2 the premium product.

3 So, I think we're going to have to go back
4 and scratch our head a little bit and figure out what
5 accounts for the differences in the data, because we
6 were relying on what the Commission staff collected
7 and what was collected through the questionnaires.
8 And now, we now we have this sort of data by way of
9 the Green Markets and other industry sources that
10 really calls that into question, because those seem to
11 be the sources. The staff data all appears to suggest
12 that the prilled is sold at a premium, whereas the
13 public sources appear to suggest the opposite.

14 COMMISSIONER HILLMAN: Okay. And then just,
15 generally, on this prilled versus granular, I think I
16 heard you say that there has been a shift in imports
17 into more granular product. I'm trying to make sure I
18 understand where you get that from. If I just look at
19 the data that we have, and I believe this data is
20 public data on Table 1-3, that would just give a
21 percentage breakdown of imports by prilled versus
22 granular, it looks to me as though there was a
23 significant shift in those percentages in terms of
24 domestic production shifting into more granular
25 production. But on the import side, at least, again,

1 I would look at that data and say we've had a pretty -
2 - very steady break between 30 percent of the imports
3 being prill and 70 percent being granular and that
4 that has actually not changed over the entire time
5 that we've been reviewing this.

6 MR. MORGAN: If I said that --

7 COMMISSIONER HILLMAN: So, I'm just trying
8 to understand it from where you're getting the notion
9 that imports are increasingly of a granular product.

10 MR. MORGAN: If I said that, I may have
11 misspoken. I think the idea I was trying to convey is
12 that all of the new capacity coming on line is
13 granular and so, as a result, there will be more
14 supply globally for granular. So, one would expect
15 that to the extent the Russian and Ukraine production
16 continues to be predominantly, if not exclusively
17 prilled, that that will sort of make them a bit of a
18 niche.

19 COMMISSIONER HILLMAN: Okay. Two questions
20 related. You heard a lot of our questions this
21 morning trying to understand why this shift towards
22 more granular. And, again, I see it as pretty
23 isolated to the domestic side. And what I heard, at
24 least my sense of the testimony this morning, was that
25 it was heavily supply driven. That there simply was

1 not as much domestic supply of prilled product, as
2 opposed to per se a demand pull for granular product.
3 Do you have a sense of which it is? Why, to some
4 degree, this shift towards granular?

5 MR. MORGAN: Our understanding from speaking
6 to people in the market is that granular is much
7 preferred for agricultural use. And so, we understand
8 that it would be a demand driven shift and now that
9 it's in the U.S. marketplace and is the preferred
10 product, the purchasers are unwilling to shift back.
11 It's a better product to handle. It's better to use
12 in their equipment. The prilled product probably not
13 as represented in what we provided, because we got it
14 by way of an air shipment and so it wasn't in a
15 vessel. But, it's subject to more degradation. You
16 have fines. It clumps. So, it makes it much more
17 difficult to spread for agricultural uses. So the
18 demand -- the way we see the growth being driven is by
19 the demand, because the granular is a much better
20 product for the predominant --

21 COMMISSIONER HILLMAN: Would you describe
22 that as a worldwide shift towards preferring granular
23 or is it limited to the U.S. market?

24 MR. MORGAN: It appears to be worldwide.
25 And I would say to the -- or direct you to this 1999

1 study. The first thing, they have not updated that
2 study and it's confidential, but they do discuss that
3 granular, after some period of time on a market, will
4 generally gain acceptance on that market for
5 agricultural uses and that prilled is relatively
6 confined once the market begins to demand granular.
7 Prilled becomes confined or industrial uses.

8 COMMISSIONER HILLMAN: We heard testimony
9 this morning that there may be a price premium for
10 granular; but when that price gap narrows and, again,
11 different testimony in terms of how much, but in,
12 whatever, two or three dollar range, that, in fact, on
13 the fertilizer side, there is a switch from granular
14 to prilled. Is it your view that that switch never
15 occurs or is it just that the price gap that you think
16 -- you know, that exists is larger than what
17 Petitioners are saying?

18 MR. MORGAN: I think if you look at the
19 questionnaire responses, they say to a much larger
20 percentage difference than what two or three dollars
21 would be. And what we heard is that at some point,
22 it's level. Some will try, some purchasers may try to
23 use prilled, so we actually would have a switch. But
24 most people that we felt -- most people we talked to
25 felt that they would go back to granular, because, for

1 agricultural use, it's just a premium product and per
2 dollar sort of -- because of the waste and the fines
3 and the other issues you encounter when trying to
4 apply it, it ends up being more economical just to use
5 the granular.

6 Now, of course, that suggests that at some
7 price, there may be some switching. But, there is
8 evidence in the record that no matter what the price,
9 there would be no switching. So, I think the record
10 is somewhat ambiguous on whether there would be any
11 switch, but it certainly suggests that the price would
12 have to be far different. And with us, it doesn't
13 make much sense that prilled would begin pricing
14 differently or would sell at such discounts in the
15 agricultural market, when in the industrial segment,
16 it has use. It's not as if the product is of no use.
17 There is a segment of the market, we believe it's a
18 very different market segment, where the product can
19 be used. So, we don't see those kind of discounts
20 being offered in the agricultural market that would
21 force a switch.

22 COMMISSIONER HILLMAN: And then on the issue
23 of whether the prices track one another, I mean,
24 again, we've heard a lot of testimony this morning
25 that even if you're purchasing granular product, you

1 would use prilled product in your price negotiations
2 or vice versa, so that there is a clear price
3 relationship between the granular and the prilled.

4 MR. MORGAN: We're going to look into that
5 further. But one thing that I noted is that the
6 market segments are different. They were saying --
7 the domestic industry actually has this in their pre-
8 hearing brief and I believe there was some reference
9 to it today. Dealers and distributors buy both import
10 and domestic product. But in the industrial segment,
11 you tend to have purchasers directly to the end user.
12 So, you have a different segment there, in the sense
13 of the way negotiations would be going. And then, I
14 think, Andy had maybe a point to say about, you know,
15 the sort of correlation --

16 COMMISSIONER HILLMAN: Given that that red
17 light has been on for a little while, why don't I come
18 back, Mr. Parsons, and let you have a little bit more
19 time to respond to that question. Thank you.

20 CHAIRMAN KOPLAN: Thank you. Commissioner
21 Pearson?

22 COMMISSIONER PEARSON: Thank you, Mr.
23 Chairman, and welcome to the panel. Mr. Parsons,
24 since you are all ready to finish addressing
25 Commissioner Hillman's question, why don't you go

1 ahead and do that.

2 MR. PARSONS: Just in regards to the
3 correlation, a lot of times, products that are very
4 unsimilar can still have high correlations. I've seen
5 studies where people have shown the price of eggs and
6 the population of Australia have a correlation of .99.
7 So, that doesn't mean that they're substitutes. And
8 as we pointed out that the elasticity of substitution
9 found in 1995 of five to seven has now recently, as
10 has been estimated by the staff, to have gone down to
11 a range of two to four.

12 And further evidence of that is this huge
13 price discount that we talk about. I mean, they say
14 it's only a dollar or two. But, we've seen other
15 evidence that says, no, they need a 10 to 20 percent
16 discount. And for commodity products, you would not
17 expect -- if I'm selling you a pen, not a similar pen,
18 you wouldn't require a price discount to go to that
19 other pen. And so, they have said that they require
20 at least a 10 to 20 percent discount, if not greater.

21 COMMISSIONER PEARSON: Okay. Well, I look
22 forward to learning more about the relationship
23 between the price of eggs and the population of
24 Australia in the post-hearing. That sounds to me like
25 quite an extraordinary correlation. My sense has been

1 that the population of Australia as grown gradually
2 over time, augmented somewhat by immigration, and that
3 the price of eggs keeps going up and down. So, if you
4 could shed any more light on that one, I'd appreciate
5 it.

6 Mr. Morgan, in response to a question from
7 Commissioner Hillman, you indicated something to the
8 effect that the U.S. market for urea consumption is
9 more advanced than in other countries. Can you
10 elaborate on that? In what ways would it be more
11 advanced or differentiated from the consumption in
12 other countries?

13 MR. MORGAN: I think it goes to the
14 distinction that the U.S. places on granular and
15 prilled urea. And the report to which -- or the CRU,
16 this 1999 study, sort of talks about that sort of the
17 Marxist evolution of nitrogen fertilizers, sort of the
18 market finds itself originally in this state of using
19 prilled and then eventually moves to granular and that
20 sort of, as a urea product, becomes the resting point
21 for agricultural uses. So, in that sense, the study
22 suggests that other markets are moving along those
23 lines, as well, sort of evolving from prilled, as an
24 agricultural product, to granular. And, again, we
25 believe it's a demand driven factor, that once

1 purchasers use the product, they find it to be much
2 better in terms of its -- all of the various handling
3 and spreading and various things, than the prilled
4 product.

5 So, in that sense, the U.S. apparently is,
6 according to this study, much further along the line
7 and really at a point where the industrial -- or the
8 prilled product is taking on an insignificant sort of
9 role in agricultural uses and really is confined to
10 industrial ones.

11 COMMISSIONER PEARSON: Okay. So, you are
12 talking primarily about the differentiation between
13 prilled and granular for fertilizer use. You weren't
14 referring to differences in industrial use or feed use
15 of urea?

16 MR. MORGAN: No, primarily just related to
17 the differences between the two forms, granular and
18 prilled; that's correct.

19 COMMISSIONER PEARSON: Okay. I think in
20 response to a question of the Chairman's, I think you
21 said something about -- you do emphasize the
22 consideration we should give to natural gas pricing in
23 Russia and Ukraine. And I guess my question is, isn't
24 that a condition of competition that we should
25 consider, understanding that it's the Commerce

1 Department that actually would calculate a dumping or
2 subsidy margin? But given that natural gas apparently
3 accounts for some 50 to 75 percent of the value of the
4 finished product in, you know, probably in all
5 countries, isn't that a condition of competition that
6 we should try to understand?

7 MR. MORGAN: It's a condition of competition
8 in the sense that the review is -- relative to where
9 other non-subject imports are coming from. How does
10 it compare to prices, where we know that non-subject
11 imports are coming? We know that the same treating
12 companies that are bringing those in are going to be -
13 - are likely to sell the subject merchandise. And
14 they've been able to gain access to low-cost -- or to
15 imports from low-cost natural gas countries. So, how
16 would that behavior translate into their pricing in
17 the U.S. market. And we have almost 20 years of
18 evidence that they're priced at fair prices and that
19 they have done so at non-injurious prices, based on
20 just the condition of the industry, you can conclude
21 that.

22 So, why is it that having a source in
23 Russia, where even -- you know, it's a little bit
24 higher in terms of the natural gas, even if that's
25 provided through a state mechanism -- and we don't

1 consider it is; we'll look into that further, in
2 response to the Chairman's request -- but even if
3 that's the case, why does it ultimately matter in
4 terms of what the price would be -- likely to be in
5 the U.S. upon revocation? And that's where we think
6 that the analysis sort of begins and ends, is how
7 those are ultimately impact what the price would be in
8 the U.S. market.

9 COMMISSIONER PEARSON: If we can look
10 further into that. We have the domestic industry
11 saying, in essence, that in Russian and Ukraine, the
12 system of natural gas pricing provides a somewhat
13 unique and formidable advantage to exports from those
14 countries. Do you have information on natural gas
15 pricing in third countries, so that you could
16 undermine their argument that it's somehow special in
17 Russia and Ukraine that gives this particular
18 advantage?

19 MR. MORGAN: I'm not sure. We can certainly
20 look. What we did provide was natural gas pricing
21 that was provided on one of the Petitioner's websites
22 and that does provide the natural gas costs for
23 producers in North Africa and the Middle East at 75
24 cents, which is below 90 cents that is paid in Russia.
25 And I believe it's \$1.60 in Ukraine. And then,

1 Venezuela and Argentina, also, have lower natural gas
2 costs. And we can look for other sources for that,
3 but we think that that's a valid way of evaluating
4 what gas costs are to producers in the various
5 producing regions. And, in fact, I believe that was
6 the intended purpose of the exhibit that -- the
7 intended purpose of publishing this exhibit in the
8 article that we took it from was specific to nitrogen
9 fertilizer producers' natural gas costs. But, we will
10 look for other sources for you, Commissioner.

11 COMMISSIONER PEARSON: Is part of your
12 argument that trading of urea in the world market is
13 competitive enough, so that we would expect all
14 economic rents to be extracted by the traders and urea
15 from any source that would enter the United States at
16 roughly the same price, perhaps adjusted for quality?
17 I mean, is that why you're saying that the potential
18 differences in natural gas costs in various countries
19 shouldn't make a difference to our analysis?

20 MR. MORGAN: Economic one, sounds like
21 something that an economist should maybe take a crack
22 at, if he's willing.

23 COMMISSIONER PEARSON: Please, Mr. Parsons.

24 MR. PARSONS: Yes. I think that is our
25 argument, is that, basically, we have a transparent

1 market, an efficient market. And the U.S. producers
2 have said as such, that trade publications make it
3 such that you can see prices around the world. So, if
4 I am a trader of urea in the world, if I can gain
5 higher profits in the United States than I can in the
6 Baltic, I would obviously switch my product over to
7 that and supply more to the United States, gain a
8 higher profit, and then supply and demand would come
9 into effect in lower prices or raise prices in the
10 Baltic. And so, we're saying that it's a world
11 market. So as supply shifts to one area and prices
12 are raised where that supply shifted from, thus
13 equalizing the prices around the world. So, any type
14 of inefficiencies that come about in the market are
15 only temporary in efficiencies and any differences in
16 prices, we've argued, are based primarily on
17 transportation costs.

18 COMMISSIONER PEARSON: But, frankly, if the
19 U.S. is the largest consuming market, and that would
20 be an argument that we would tend to set the world
21 price here, to some degree, then the transportation
22 costs should back into the -- that should be something
23 that would have to be swallowed by the producer or the
24 trader, because they wouldn't be able to push a higher
25 transportation cost into the U.S. market, should they?

1 MR. PARSONS: Yes, that's true. What I'm
2 saying is that given that -- like they have said that
3 the Baltic Sea price is lower than the U.S. prices.
4 But, actually, they don't take into account
5 transportation costs. So taking into effect
6 transportation costs, if you've taken that into effect
7 into the analysis, then the profits earned in both
8 markets should be similar. So, if they are not, as
9 they say, the United States give you a higher profit,
10 then some would see a sudden shift from other markets
11 into the United States. And they've argued that since
12 1999 or 2000, that this profit has existed. Well, in
13 an efficient market, in a transparent market, other
14 non-subject importers would be aware of this and would
15 shift to the United States market. So, in a world
16 market, we would expect that immediate shift and there
17 would only be a short lay of time where there would be
18 these abnormal returns.

19 COMMISSIONER PEARSON: Okay, thank you, very
20 much.

21 CHAIRMAN KOPLAN: Thank you, Commissioner.
22 Commissioner Aranoff?

23 COMMISSIONER ARANOFF: Thank you, Mr.
24 Chairman, and thank you, very much, to the panel for
25 being with us this afternoon. Mr. Morgan, your

1 clients, the Russian producers, who are their direct
2 customers? Do they always sell to trading companies?

3 MR. MORGAN: In the third-country markets,
4 would you say that that's -- this is based on a
5 conversation I guess we had yesterday, so maybe it is
6 something we should comment on in the post-hearing, in
7 terms of their -- I don't know that it's actually just
8 one producer, so maybe it's something we could comment
9 on either post-hearing public, if we can get through a
10 number of producers, or whether or not this is just
11 our sort of one company's commercial behavior. But,
12 historically, I will say that it's certainly been the
13 case where it's been through traders.

14 COMMISSIONER ARANOFF: Okay. What I'm
15 trying to get a sense of, obviously, is whether
16 Russian producers sell directly to trading companies
17 in their own country, who kind of mix product from all
18 different countries and send it wherever there's
19 demand; whether they sell directly to distributors in
20 the U.S., trying to figure out how that works.
21 Basically, the underlying question is, who decides
22 what country the product is going to, the Russian
23 producer or somebody else?

24 MR. MORGAN: I think all of the evidence in
25 the record to date and the behavior has been that it

1 is bought by traders and sold by traders and that the
2 producers, themselves, do not direct it to a
3 particular market or do not sell it to distributors in
4 those markets.

5 COMMISSIONER ARANOFF: So when we talk about
6 whether or not Russian producers would have an
7 incentive to ship product to the United States, if the
8 orders were revoked, that's not really the relevant
9 question, that the relevant question is whether
10 whoever bought it from the Russian producers would
11 have that incentive.

12 MR. MORGAN: I think in this case, and we'll
13 look into this a little bit further, too, but the
14 notion of producers being price takers, I think,
15 likely applies to Russian and Ukraine producers, as
16 well, and that that would mean that the trading
17 companies, in fact, are the ones, who would have
18 incentives to shift.

19 COMMISSIONER ARANOFF: Okay, thank you. Mr.
20 Parsons, you were talking before and in your brief
21 about how regional prices tend to reach equilibrium on
22 a global basis in the long term. How long is the long
23 term? How long does it take prices in this market to
24 reach equilibrium?

25 MR. PARSONS: Well, that depends on the

1 transparency of the market. If there is a lack of
2 information, if traders can't find information on
3 pricing in various regions of the world, that,
4 honestly, that pricing differential will exist for
5 longer. But, as the U.S. producers have indicated,
6 that this is a rather transparent market, so it would
7 be short-lived. So, I would estimate in under a year,
8 that should correct. So, that type of pricing
9 transparency should not exist for, I mean, for lack of
10 a better term, a long term. Does that make sense or -
11 -

12 COMMISSIONER ARANOFF: Yes, yes, thank you.
13 I want to go back to the issue of trading companies
14 again. And as I addressed these questions to
15 Respondents, I hope that domestic producers can also
16 maybe address them in their post-hearing brief. But,
17 I'm really trying to have a better understanding of
18 how these international trading companies operate; for
19 example, where and to what extent they hold product in
20 inventory or whether they just match, you know, a
21 shipload coming out of one port with a customer in a
22 particular country; whether product from multiple
23 countries ever gets commingled. I'm trying to
24 understand whether it actually moves around in
25 complete boat loads from a particular factory or

1 whether there's a mixing up along in the process.

2 MR. MORGAN: I think to keep the record sort
3 of clear and accurate, it would be better for us to
4 comment on that in our post-hearing, just in a sense
5 that we'll have to call and find that out. I don't
6 know. My sense is that it's usually sold in vessel-
7 load quantities, at least; but then once it hits the
8 U.S. shore, I'm not sure, then. I do understand from
9 some of the questionnaire responses that the product
10 can be -- that they're not aware of the differences in
11 origin. But, I don't know that that means that it's
12 commingled before it arrives.

13 COMMISSIONER ARANOFF: Do consumers care
14 what country the product comes from, the ultimate
15 consumers?

16 MR. MORGAN: No. My sense is that's clearly
17 not the case, where the country of origin matters.
18 And certainly whether it's prilled or granular,
19 they're going to know that and they're going to -- I
20 mean, that's what they're buying. But whether or not
21 that prilled comes from Russia or whether the prilled
22 comes from another country that supplies it doesn't, I
23 think, matter to the ultimate purchaser.

24 COMMISSIONER ARANOFF: Although you did
25 mention -- one of the members of the panel did mention

1 earlier, talking about that some domestic purchaser
2 had expressed a preference, saying that a certain
3 amount of their purchases had to be domestic. Is that
4 consistent with what you're telling me now?

5 MR. MORGAN: As far as a preference for --
6 or not a preference, I mean that was a question that
7 they expressly responded in their questionnaire
8 response that 75 percent must come from domestic
9 sources. So, presumably, they know where they're
10 buying that or their purchasing arrangements are made
11 in such a way as to ensure that that happens. And, in
12 fact, their questionnaire response breaks out. So for
13 that purchaser, at the very least, they do have. But
14 as far as differentiating between sources of imports,
15 I don't think that that occurs.

16 COMMISSIONER ARANOFF: Okay. Just to shift
17 to another topic, you testified that granular is sort
18 of the product of the future, that it's caught on in
19 the U.S. market. We know that there's a lot of
20 granular capacity coming on line in Italy; so,
21 presumably, it's also catching on in other markets.
22 Why has the Russian industry, which is one of the
23 largest producers in the world, sort of completely not
24 gotten on that train?

25 MR. MORGAN: Well, I think you have heard

1 testimony earlier that they're able to sell the
2 prilled product. That's what their facilities are
3 currently set up to do and they're able to do it and
4 operate at 100 percent capacity or near 100 percent
5 capacity. So, where is the incentive to switch for
6 them? I just think they don't have any incentive to
7 do it, when they're able to sell. If they were
8 operating at low rates of utilization and couldn't
9 sell the product, then perhaps they would have an
10 incentive. But right now, it seems that they've got a
11 pretty good situation. They can sell their product
12 and they don't have to incur the capital cost or the
13 shutdown cost, because they would have to shut down
14 existing productions, not just the expenditure of
15 capital that would be required to shift, but for the
16 12 to 18 months, as I understand it, as I believe in
17 one of the foreign producer questionnaire responses,
18 you have to not produce for that period of time or at
19 least curtail your production. So, it's not just a
20 question of switching; it's also a question of
21 shutting down and going off line for a period of time.
22 So, it's the capital expenditure, plus the lost
23 opportunity. And when they can sell the product, why
24 do it?

25 COMMISSIONER ARANOFF: No, I understand

1 that. But, it's just interesting that what seems to
2 make sense for producers in every other country in the
3 world, either because consumers are demanding a
4 granular product or because the producers, themselves,
5 find it so much easier to handle, doesn't apply in
6 Russia. And anything you can add later that could
7 help sort that out, I think, would be useful.

8 MR. MORGAN: We will be happy to do that for
9 you, Commissioner.

10 COMMISSIONER ARANOFF: Okay. One last
11 question and that going to the current condition of
12 the domestic industry. And you've pointed out and,
13 obviously, our staff report reflects that in many
14 respects, the domestic producers are doing pretty
15 well, performing pretty well, in the most recent
16 period. And in the one sense, that can be taken as an
17 argument that they are not currently vulnerable. But
18 to what extent could it also reflect a survivor's
19 bias, that the companies that weren't able to compete,
20 weren't able to deal with the cost differential for
21 natural gas between the U.S. and Russia, for example,
22 have recently fallen out of the industry? There were
23 some closures in 2003 and earlier periods. And so,
24 the ones you have now were the ones that kind of made
25 that first cut, but if there's another cut in the

1 future, they might be the next ones.

2 MR. MORGAN: Well, I think the record
3 currently reflects, even those that exited the
4 industry during the period -- I mean, you have data
5 through 2004 and the exit of several producers is
6 still contained in that data. So, to the extent
7 there's a survivor's bias, it actually is to lower
8 really what you're saying. If you take out the
9 producers that exited, you get a better industry
10 that's in even better condition.

11 And I would say on the other -- the other
12 part of it is that as subject imports have not been
13 here, they have not caused any of these producers to
14 exit. So to the extent that it's a little bit
15 different than a survivor bias in an original
16 investigation, it reflects conditions of competition
17 and it shows that the industry that would be in
18 existence upon revocation is much better able to
19 compete than the one that existed during the period of
20 review.

21 COMMISSIONER ARANOFF: Thank you. I
22 appreciate that answer. Thank you, very much.

23 COMMISSIONER KOPLAN: Thank you,
24 Commissioner. Mr. Morgan, in your pre-hearing brief,
25 you twice quote -- it's at pages 16 and 21 -- from a

1 letter from Jack Eberspacca, president of the
2 Agricultural Retailers Association, which represent
3 U.S. fertilizer retailers and distributors. The
4 sentence in your quote, the one that I'm interested
5 in, says, "industry specialists have stated that
6 interchangeability between granular and prilled urea
7 is limited or non-existent in the U.S. agricultural
8 market for a number of reasons." Can you provide us
9 with the identity of those industry specialists
10 referred to in the letter and a description of how
11 representative of the industry they are, for purposes
12 of the post-hearing?

13 MR. MORGAN: We'd be happy to that, Chairman
14 Koplan.

15 CHAIRMAN KOPLAN: Thank you.

16 MR. MORGAN: Let me qualify that. The ARA
17 is not our client, so we can ask them and try to get
18 them to provide us with that. But, we will do
19 everything we can to get that to you.

20 CHAIRMAN KOPLAN: I appreciate that. Mr.
21 Parsons, the Russian pre-hearing brief at page 13
22 states that, "in this review, the record establishes
23 that there are two market segments in the United
24 States, one for granular and one for prilled urea."
25 On page 19, you claim that "another fact, evidencing

1 market segmentation, is the degree to which price
2 differences exist between the two products. If
3 granular and prilled urea were perfect or even close
4 substitutes, one would not expect to see significant
5 price differences between them." I call your
6 attention to Figure 5-3 in our pre-hearing report, at
7 page 5-7, which reflects weighted average FOB prices
8 of domestic products one, which is prilled urea dry,
9 100 percent urea basis; and two, which is granular
10 urea dry 100 percent urea basis, by quarters from
11 January 1999 through December 2004. The details
12 provided in the figure are confidential. What I can
13 say and it is clear to me, when looking at the
14 relative prices, that those two products do not have
15 significant price differences between them. Could you
16 reconcile this to me, to the extent that you can now,
17 and elaborate on your explanation, as necessary, in
18 your post-hearing submission? Or do you want to do it
19 all in your post-hearing submission?

20 MR. PARSONS: I think I'll refer to the
21 post-hearing submission on that.

22 CHAIRMAN KOPLAN: Okay. But, you'll do that
23 for me?

24 MR. PARSONS: Yes, I will.

25 CHAIRMAN KOPLAN: Okay. Thank you. Let me

1 follow up on something that Commissioner Hillman got
2 into in her first round. If prilled and granular urea
3 prices are closely correlated, as the Ad Hoc
4 Committee's pre-hearing brief suggests in their
5 Exhibit 5, showing a .99 correlation coefficient
6 between prilled and granular urea prices, my question
7 is, why wouldn't an increase in prilled urea imports
8 simply drag down granular urea prices, as well? I
9 note that Agrium makes such an argument on page five
10 of its pre-hearing brief. Mr. Morgan?

11 MR. MORGAN: The first, I think, response is
12 that the first place where there's going to be any
13 competition is between -- first of all, we're assuming
14 that there's going to be a volume of exports coming.
15 So, the area of exports here of subject merchandise
16 and then they're going to compete with non-subject --

17 CHAIRMAN KOPLAN: That would be the
18 assumption, yes.

19 MR. MORGAN: That would be, yes, absolutely.

20 CHAIRMAN KOPLAN: Yes.

21 MR. MORGAN: Because, we've kind of --

22 CHAIRMAN KOPLAN: That's my question.

23 MR. MORGAN: We kind of have it as a given,
24 I suppose, a little bit in our brief that, you know,
25 we're evaluating this in terms of subject merchandise,

1 actually, entering the U.S. market. But, you know,
2 it's just an assumption without actually having -- you
3 know, we're not saying that they're aren't going to
4 be. But, I think just to keep it in the context of
5 that fact that there aren't any currently here and
6 haven't been any here for 20 years and they found
7 markets and, you know, have gone on and -- I just
8 wanted to --

9 CHAIRMAN KOPLAN: I'll stipulate to that.

10 MR. MORGAN: Okay. So, the first thing
11 there's going to be is non-subject imports that have
12 market share and we submit that the evidence that they
13 would displace those. Now, the trading companies that
14 are bringing them over -- I guess the short answer to
15 the question is we don't think that there will be
16 price effects, because we don't see the trading
17 companies that are going to bring these in as having
18 an incentive to undercut their own prices. And so
19 from that perspective, we, I guess, cannot buy into
20 the domestic industry's thesis, as expressed in
21 Agrium's brief, that there's going to be a price
22 impact, in terms of lowered prilled prices.

23 CHAIRMAN KOPLAN: Maybe, you misunderstood
24 me. What I'm asking you is making that assumption,
25 making that leap, I realize they're not here now, why

1 would an increased in prilled urea imports simply
2 drive down domestic granular urea prices, as well?

3 MR. MORGAN: Well, I think another example
4 you can cite to is Estonia and Romania. The domestic
5 industry, in fact, has cited to. You've had imports
6 there and the testimony that I heard was that U.S.
7 prices have been holding up just fine. So, in fact,
8 you do have -- and that's prilled product. So, I know
9 there's this correlation analysis; but, in actual
10 fact, you have some evidence of prilled coming in and
11 you haven't had an impact on -- and prilled that they
12 claim is at much lower prices and it hasn't had an
13 impact.

14 CHAIRMAN KOPLAN: Okay. Thank you, very
15 much. I think that concludes my questioning. I'll
16 now turn to Vice Chairman Okun.

17 VICE CHAIRMAN OKUN: Thank you, Mr.
18 Chairman. Mr. Chairman, I can probably only get one
19 more question out before I just have to say I'll read
20 all of your briefs very carefully and review the
21 testimony, because I'm just not thinking that clearly.
22 But my last question for you, which is,
23 hypothetically, determine -- if I determined that I am
24 not decumulating Russia and the Ukraine and I just
25 look at the record of it and it's regarding the

1 capacity of the subject industries, which are more
2 than twice capacity to U.S. industry in 2004 and
3 shipments, which -- from subject industries, three
4 times the total shipments of the domestic industry,
5 it's a lot of possible product to come into the United
6 States. Give me your three strongest reasons why that
7 coming into the United States, product, if the order
8 is lifted, won't result in recurrence or continuation
9 of injury to the domestic industry.

10 MR. MORGAN: This is on-the-spot here.
11 First reason is the trading companies already --
12 they'd be displacing their own non-subject imports.
13 So, I think that, in and of itself, will limit the
14 amount of volume.

15 Second thing, if there's a huge increase
16 demand for Russian product and Ukraine product, the
17 laws of supply and demand dictate that their price is
18 going to shift and it's going to increase, and that
19 has to do, in part, with the world market nature of
20 this.

21 And the second is they're absolute full
22 capacity. That's based on public data. That's based
23 on the data in the questionnaire responses. So, it
24 would be require shifting. Now, it would be that
25 trading companies would have to shift, but the fact is

1 that this product is fully committed to other markets.

2 And maybe the fourth, which is the U.S.
3 market is not a natural market for this product, given
4 the preference for granular and given that other
5 markets still take prilled and don't have that kind of
6 preference developed. So, you factor those things in,
7 I do think that there is very strong evidence of no
8 significance of any likely volumes.

9 VICE CHAIRMAN OKUN: Okay. I appreciate
10 those answers and I guess with regard to your first
11 thing about the trading companies, I will be
12 interested in whatever additional information you can
13 provide in response to Commissioner Aranoff's question
14 about whether the Russian and Ukranian project is
15 currently handled by trading companies. And with
16 that, Mr. Chairman, I have no further questions.

17 CHAIRMAN KOPLAN: Thank you, Commissioner.
18 Commissioner Hillman?

19 COMMISSIONER HILLMAN: A question on urea
20 demand more globally. We heard some testimony this
21 morning that there has been a shift in the U.S.
22 market, at least, out of some of the other nitrogen
23 containing fertilizer products, ammonia nitrate and
24 ammonia, into solid urea. And, yet, when I listened
25 to the reasons for that, they struck me as potentially

1 uniquely U.S. reasons; i.e., the problem on the
2 explosive side of the ammonia nitrate being restricted
3 post Oklahoma and/or the meth-amphetamine problem on
4 the ammonia side. Is that right? Is it a U.S.
5 phenomenon that there has been a shift out of ammonia
6 nitrate and ammonia into urea or is that a global
7 shift?

8 MR. MORGAN: Our view of the demand
9 increases in the U.S. is that you have sort of one to
10 two percent both reflected in the sort of growth
11 throughout the period, but irrespective of any
12 additional growth caused by shifts from ammonia
13 nitrate into urea and anhydrous ammonia. And so,
14 those are uniquely U.S. factors, as we know, and so
15 the global demand at three percent does not account
16 for any such shifts. It's strictly a factor of urea
17 gaining increasing prominence and a nitrogen-based
18 fertilizer.

19 COMMISSIONER HILLMAN: Okay, all right. We
20 heard testimony this morning that there are pileups at
21 the docks, at the Black Sea ports. Would you agree
22 with that?

23 MR. MORGAN: We talked to our client,
24 actually, about that and it's not representative
25 necessarily of Ukraine. But, they're unaware of such

1 pileups. And, in fact, maybe Jay can comment a little
2 bit on -- you know, they have provided us with
3 statistics, which we, in turn, will provide to the
4 Commission, that some of these declining exports that
5 the U.S. industry has cited has not constituted total
6 export declines, but Brazil was a temporary situation
7 and they found other markets for the product. And Jay
8 might be able to say a few more words on that, as
9 well. But --

10 MR. CAMPBELL: Just quickly, I think what
11 Frank is referring to is, obviously, high capacity
12 utilization rates are a key fact in this review and
13 they're key because it indicates that significant
14 volume effects are not likely. And for that reason,
15 the domestic producers have focused on this issue and
16 are trying quite hard to show that there are in 2005,
17 at least, despite the high utilization rates in 2003
18 and 2004, in 2005, there's subject merchandise in
19 excess of supply out there waiting to come to the
20 United States. And for that reason, they submitted
21 their Exhibit 19, which is their excess volume summary
22 and they alluded to the buildup at the ports. But,
23 again, we have recent statistics from IFA that we'll,
24 of course, provide in our post-hearing brief, that
25 show that exports -- these are actual shipments,

1 exports, not product just distributed to the port for
2 Russia and Ukraine, have actually increased in the
3 first six months of 2005, compared to 2004. So, all
4 available evidence indicates that the Russians and
5 Ukrainian producers continue to produce at high
6 utilization levels. And this is also reflected in the
7 fact that their overall shipments to Latin American
8 have also actually increased in the first six months
9 of 2005 compared to 2004.

10 COMMISSIONER HILLMAN: Okay. Similarly,
11 there was this argument that there have been
12 restrictions on -- basically, a pileup of railcars and
13 instructions not to put anything more on the rails
14 given these backups. Do you have any comment on that
15 or do you know anything about that issue either?

16 MR. CAMPBELL: Well, we've seen the reports
17 of this, that the domestic producers submitted. But,
18 again, these are isolated events, if anything. Our
19 client certainly wasn't aware of them. But, I think
20 you have to look at the full period of review and you
21 see that in previous periods earlier, basically,
22 there's been an increasing trend of capacity
23 utilization. It hasn't been high throughout. And you
24 would expect if the domestic -- excuse me, you would
25 expect that if the subject producers had the incentive

1 to just produce as much as they can and then wait for
2 it to be sold later, they would always be operating at
3 high utilization levels and that's not the case.

4 COMMISSIONER HILLMAN: I appreciate that.
5 Mr. Morgan, in response to the Vice Chairman's
6 question that you commented on this issue of the
7 committed nature of the sales, and, again, Mr.
8 Campbell just sort of touched on this, I'm just trying
9 to make sure I understand, are they all committed? I
10 mean, obviously, you wouldn't have this pileup at the
11 ports or this rail problem if you knew where they were
12 going the minute they got to the port. So, I'm trying
13 to make sure I understand whether your perception is
14 that the production is committed as it's leaving the
15 plant.

16 MR. MORGAN: Our understanding is that the
17 production is meant to be sold and it's not meant to
18 be produced to operate at higher rates. We'll confirm
19 that and we'll provide perhaps a declaration or some
20 other form of evidence to support that fact. But,
21 that's our understanding that it's committed and not
22 simply just unloaded at the ports.

23 Another thing to consider, too, is that
24 prilled urea, unlike the granular, is not meant to be
25 held in storage and you do have the evidence in the

1 record showing that there have been fluctuations and
2 in times of low urea prices, more -- I shouldn't say -
3 - that's probably not an accurate characterization.
4 But when ammonia commands a higher margin relative to
5 urea, I believe it was the witness for Agrium, who
6 stated that they switched -- or not switched, but
7 produced more ammonia, because that was a higher
8 margin product for them. So, it doesn't seem to
9 square at all with the evidence that they simply
10 product urea and then dump it at the dock and then
11 wait for a source of supply. In fact, we would submit
12 that if that was occurring, we would see that
13 reflected in greatly depressed world market prices,
14 which you just haven't had during this period of
15 review. The last five years, Russian and Ukranian
16 product has been on the world market and that just
17 hasn't happened.

18 COMMISSIONER HILLMAN: Well, actually, let
19 me turn back to this whole issue of whether this is a
20 world market price, one price. A couple of things,
21 Mr. Parsons, in response to the question that I had
22 asked that you were -- Commissioner Pearson was kind
23 of let you respond to on his time, I appreciate that,
24 as I heard you say it, it is this issue that there is
25 one world price and that if it were not the case, if,

1 in fact, the U.S. price was higher and a more
2 attractive market, then you would have seen more
3 imports being pulled into the market to take advantage
4 of that higher price. My problem is that when I look
5 at the data, I think that's exactly what happened, is
6 that the imports, although they're not Russian or
7 Ukranian, but certainly we have seen a very
8 significant increase in the total volume of imports
9 that has come into the market, at least. And my sense
10 is, yes, imports have gone from 48 percent market
11 share to 65 percent market share, from three-and-a-
12 half million tons to five-and-a-half million tons.
13 That feels to me as though that is, in fact, what has
14 happened, is that there has been some premium in the
15 U.S. market coming into the U.S. market and that,
16 indeed, imports, albeit non-subject imports, have been
17 the ones that have been taking advantage of that more
18 attractive U.S. market. Why is that wrong?

19 MR. PARSONS: I would say that, yes, that is
20 possible, that the non-subjects have taken advantage,
21 that there potentially is a higher profit to be earned
22 temporarily in the United States; however, so have
23 U.S. domestic producers, based on their operating
24 profit margins. So, when you look at this situation
25 where you have a world price or world market, yes,

1 temporary prices or price differentials might occur,
2 but transportation costs can, when you factor that
3 into the price between the Black Sea or the Baltic or
4 the United States, those profits should only -- I
5 mean, you see a huge shift all in one year, if that
6 profit actually existed. You wouldn't see sales to
7 other markets. So, I don't understand how -- why
8 would anyone, any rational profit maximizer, if they
9 can shift more product into the United States, as
10 opposed to anywhere else in the world market, why
11 wouldn't they do that immediately? Why the slow
12 shift?

13 So, I would say, then, there might be a
14 trend towards -- obviously, there is a trend towards
15 non-subject importers into the United States over the
16 past 20 years, but you wouldn't necessarily -- if
17 there wasn't this equilibrium happening, then you
18 would see even a greater shift than what's already
19 occurred. So, you hit these equilibrium states. Once
20 you hit them, you don't have anymore reason to import
21 or sent more imports over to the United States.

22 COMMISSIONER HILLMAN: I hear what you're
23 saying. I will say, (a) it doesn't look to me that
24 the U.S. industries' profitability is at all
25 consistent in this record. We certainly have a fair

1 number of years, in which they lost a lot of money.
2 So, it's been maybe of late that they've been doing
3 very well, but I'm not sure it correlates to this
4 issue of where the import volumes were. But, on this
5 global market, we certainly see a lot of cases in
6 which the argument is made that it's one global
7 market. But, here, I guess I'm having trouble with
8 it, because there is -- transportation costs are such
9 a high percentage of the total cost of the product.
10 And (b) you've got natural gas, which is a
11 significant, very significant component of the cost of
12 production that also varies extremely widely, given
13 the different markets. So, it's a little unclear to
14 me how, at the end of the day, we then say this is a
15 one price, one market situation. So, given that the
16 red light is on, I'll let you maybe comment on that in
17 the post-hearing brief.

18 MR. PARSONS: Thank you.

19 CHAIRMAN KOPLAN: Thank you. Commissioner
20 Pearson?

21 COMMISSIONER PEARSON: Thank you, Mr.
22 Chairman. Permit me to begin by addressing a comment
23 raised by the Honorable Vice Chairman. I have never
24 let an inability to think clearly inhibit me from
25 asking questions and that will be apparent to many in

1 the room. So, I would encourage you to press on.

2 CHAIRMAN KOPLAN: Mr. Bishop, will you press
3 on the green light? Thank you.

4 COMMISSIONER PEARSON: I thought maybe they
5 wanted to cut me off right there. Okay. The domestic
6 industry indicated, and I'm kind of paraphrasing now,
7 but they indicated that Russian and Ukrainian
8 producers are relatively unresponsive to changes in
9 global market conditions. In other words, if urea
10 prices drop, those producers would tend to keep on
11 producing and selling, while producers in other
12 countries would bear the costs of global adjustment by
13 reducing output. How do you respond to that
14 assertion?

15 MR. MORGAN: I'll take a crack at it. I
16 think I'll reference back to the statement made by the
17 witness for Agrium, which was, in fact, the Russian
18 producers have shifted to -- or have allowed ammonia
19 to be the predominant product, in times when margin
20 for ammonia was better than that for urea. So, I'm
21 not sure that the domestic industry's own sort of
22 assertion squares with that and we will certainly talk
23 to our clients more. But, you do have -- we would
24 maintain that they have been consistently at
25 relatively high rates of capacity utilization. And

1 you do have some variability there, which does suggest
2 that in response to times of lower prices, that
3 production does respond accordingly. It's not
4 consistently 100 percent every year of the period.
5 So, we would just disagree with that assertion
6 straight out.

7 COMMISSIONER PEARSON: Okay. Well, Mr.
8 Parsons, if sufficient data was available, and I don't
9 know whether it is, it might be possible to do an
10 analysis that would go back and illustrate the
11 production adjustments in recent years by Russian and
12 Ukrainian producers in response to price changes
13 either up or down. I mean, all I'm saying, it's
14 possible that there is information that could be put
15 on the record that would tend to address that issue
16 rather directly. And if there is and it's not that
17 hard, by all means, please put it on the record.

18 MR. PARSONS: We'll take a look at that in
19 our post-hearing brief.

20 COMMISSIONER PEARSON: Okay, thanks. Going
21 back to an issue we touched on a little bit before, in
22 Exhibit 2 that was presented today by the domestic
23 industry, we show these price gaps in the first months
24 of this year between imports from Romania, Estonia,
25 and Lithuania, and imports from other non-subject

1 exporters. Mr. Parsons, how would we explain that?
2 You know, are there just some imperfections in the
3 market that are -- some data problems that are
4 indicating mostly underselling by the products from
5 those Baltic countries and Romania?

6 MR. PARSONS: Well, as we've commented
7 earlier, the capacity utilization in those countries
8 is well below capacity utilization of Ukraine. So,
9 they actually have a different kind of business
10 strategy or incentive. They are trying to -- because
11 it's a manufacturing industry and they have large
12 fixed costs in this industry, obviously, if you have
13 low capacity utilization, you're just trying to sell
14 whatever product you can at whatever price, as opposed
15 to Russia or Ukraine, who are at high capacity
16 utilization, they don't have that. They're at full
17 capacity. So, they don't have the incentive to put
18 product onto the market at lower prices than they
19 would make in just in terms of profit margin. So, I
20 would point to the capacity utilization difference
21 between the two countries as an explanation for why
22 they have two different strategies.

23 COMMISSIONER PEARSON: Right, and that could
24 explain why product would be inexpensive at a Baltic
25 port, for instance, but it wouldn't explain why it

1 would be coming into the U.S. market at a lower price,
2 if, indeed, the world market is trading the stuff
3 efficiently enough to wipe out that gap.

4 MR. PARSONS: Another is it could be short-
5 term discrepancies. We're not arguing that it's going
6 to be like a stock market or something where
7 information is immediately put into the market, where
8 the price adjustments are made. But over the short
9 term and over the long term, those adjustments should
10 be made.

11 COMMISSIONER PEARSON: Okay. And is it
12 possible that there also are some timing issues here
13 regarding when these various sales might have been
14 priced? If a price is established on a contract at
15 one point and the product is delivered later, then
16 could that account for some of this discrepancy?

17 MR. PARSONS: That's possible. We'd had to
18 take a further look at that data.

19 COMMISSIONER PEARSON: Okay. Does anyone
20 have any information regarding likely future trends
21 for market urea consumption in Russia and Ukraine? Is
22 there any possibility that consumption in those
23 countries might rise enough to reduce the exportable
24 surplus? I mean, both of them are major agricultural
25 producers.

1 MR. MORGAN: Our understanding is that
2 demand is projected to increase moderately in Russia,
3 but nothing in the foreseeable future that would
4 suggest significantly increase shipments. But, we
5 will look further. We essentially conducted our
6 analysis, assuming that the majority of production and
7 shipments would be outside of their own market. But,
8 we will be happy to see if there is anything we can
9 provide you with on actual -- on market demand and
10 projections.

11 COMMISSIONER PEARSON: Okay. Well, don't
12 put a lot of effort into it. If it was an argument
13 that you really wanted to make, we probably would have
14 heard more about it earlier. But, I just wanted to
15 check, because, clearly, the agricultural production
16 potential of both Russia and Ukraine is quite large
17 and my expectation is that they are underperforming
18 now. And so, they might have some capability to
19 absorb some additional urea.

20 MR. MORGAN: That's clearly -- the only
21 place they can go is up and we'll see what, if
22 anything, we can find on that.

23 COMMISSIONER PEARSON: Okay. Mr. Chairman,
24 I have no further questions.

25 CHAIRMAN KOPLAN: Thank you, Commissioner.

1 Commissioner Aranoff?

2 COMMISSIONER ARANOFF: Thank you, Mr.
3 Chairman. Looking at the record in this case, we see
4 that over a good portion of the period of review, the
5 capacity utilization of the domestic industry has been
6 running, you know, maybe around 20 percentage points
7 below what we see for the capacity utilization level
8 for the Russian industry. Is there an optimum rate of
9 capacity utilization for good financial performance of
10 a urea plant and is there any way to account for the
11 difference between what we see in the U.S. and what we
12 see in Russia? Does it have to do with granular
13 versus prilled, or is there another explanation?

14 MR. MORGAN: My understanding of that is I'm
15 not sure if it can be considered the optimal, but
16 about 80 percent capacity utilization is where you
17 want to maintain your operation at that level.
18 Anything below that is not good. But, as far as the
19 differences, I think what you see in the U.S. data, we
20 have some questions actually, quite frankly, about
21 what -- these low utilization rates just don't square
22 with the performance that we've seen. And I think you
23 do have the situation where you have some inefficient
24 producers, who are still within that data segment that
25 you're evaluating and so that may be having an impact

1 on the utilization rate that's doing it. But,
2 frankly, we just couldn't quite understand how it was
3 that you would have the utilization rate that you do
4 and have these kind of tremendous returns.

5 Presumably, if you have an even greater capacity
6 utilization rate, you would have even greater returns
7 than what, you know, 15.2 percent. I don't know if
8 Andy has anything to add or not to that. But --

9 MR. PARSONS: Yes. Just in terms of just
10 the operating profit margins, you usually don't see
11 operating profit margins going up while capacity
12 utilization going down, especially for a manufacturing
13 industry, because they're highly based -- their costs
14 are usually highly based on fixed costs. So, they
15 have the incentive to maximize their capacity
16 utilization. So the fact that we have that divergence
17 between operating profit margins and capacity
18 utilizations within the data makes you somewhat
19 question the capacity utilization data and whether or
20 not there might be some already closures that are
21 factored in or something else that is causing the
22 discrepancy.

23 COMMISSIONER ARANOFF: Okay. Thank you. I
24 appreciate those answers. In your brief, your
25 argument, as I read it, and in sort of a simplified

1 form, seems to be that the Russian industry is
2 operating flat out and not expanding its capacity.
3 But Petitioners, in their brief at page 23, they point
4 to some public information of an addition to Russian
5 capacity that's underway of at least 350,000 metric
6 tons. Can you comment on the accuracy of that
7 information and on the timing and extent of any other
8 planned expansions that you're aware of in the Russian
9 industry?

10 MR. CAMPBELL: We're only aware of
11 EuroChem's efforts to expand capacity. Although there
12 are Russian producers that submitted questionnaire
13 responses, no one indicated capacity expansion efforts
14 in solid urea, prilled urea, or plans to expand and
15 build or convert to granular urea capacity. But as
16 far as the press release goes, as I indicated earlier,
17 EuroChem fully accounted for its efforts to increase -
18 - in 2004, its efforts to achieve its design capacity,
19 because it's been lower, and its efforts -- current
20 efforts in 2005 and 2006 to go somewhat beyond that
21 capacity. And it's fully accounted for in EuroChem's
22 questionnaire response. And again, EuroChem is making
23 these efforts based on its projections for its current
24 demand for prilled product in its current markets.
25 And if you were to take this capacity expansion and

1 consider it in the context of either the Russian
2 industry, as a whole, or accumulated Russian and
3 Ukrainian industry combined, it's not -- it's fairly
4 trivial and it basically just keeps pace with
5 concurrent consumption over the next several years.

6 COMMISSIONER ARANOFF: Thank you. I have no
7 further questions.

8 CHAIRMAN KOPLAN: Thank you, Commissioner.
9 I checked. I don't believe there are any additional
10 questions from the dias. Mr. Deyman, does staff have
11 questions of this panel?

12 MR. DEYMAN: George Deyman, Office of
13 Investigations. The staff has no questions.

14 CHAIRMAN KOPLAN: Okay. Before I release
15 the panel, Ms. Slater, do you have questions?

16 MS. SLATER: No questions, Mr. Chairman.
17 Thank you.

18 CHAIRMAN KOPLAN: I could hear that the
19 first time, actually. Thank you. Well, I want to
20 thank you all for your direct presentation, your
21 answers to our questions. I'll excuse the panel and
22 we'll go to rebuttal and closing remarks.

23 (The panel is excused.)

24 CHAIRMAN KOPLAN: Excuse me? Can you take
25 five minutes? Sure. Yes, you can take five minutes.

1 Petitioners have -- those in support of continuation
2 have four minutes left in their direct presentation,
3 plus closing remarks. Mr. Morgan, you had 19 minutes
4 left from your direct presentation. You did use up a
5 minute with a question, leaving you a total of 18
6 minutes for rebuttal. While we're taking this break,
7 maybe you can give us a sense of how far you want to
8 go with that.

9 MR. MORGAN: We'll just move right to
10 closing remarks, Chairman Koplan.

11 CHAIRMAN KOPLAN: Oh, did you hear that, Ms.
12 Slater?

13 MS. SLATER: I think I will perhaps combine
14 my rebuttal and closing remarks and do it all at once,
15 as well.

16 CHAIRMAN KOPLAN: Let's take the break and
17 we'll come back.

18 (Whereupon, a brief recess was taken.)

19 CHAIRMAN KOPLAN: We will now resume. Did
20 you settle the matter between the parties during the
21 break?

22 MS. SLATER: Yes, and took a percentage; so,
23 it was good. I'm probably, you would be pleased to
24 know, not going to take all of my time and I hope that
25 Mr. Morgan uses the same percentage of his allotted

1 time this afternoon.

2 I want to just close and sort of combine the
3 rebuttal in some closing comments. And I think
4 Commissioner Okun, by asking those opposed to
5 continuation what their key arguments were for why
6 this should not stay in place, it really helped me, I
7 think, to respond to some of the arguments.
8 Obviously, we will be talking about them in great deal
9 in our post-hearing brief.

10 But the first thing that Mr. Morgan says,
11 you know, these trading companies are really the ones
12 handling this product and they're certainly not going
13 to bring that into the market and, in essence,
14 displace their own imports. There's a lot of
15 discussion about traders being profit driven and so on
16 and so forth. We absolutely agree it's the traders
17 that are handling this material. It's very clear that
18 they're the ones moving it from Russia and Ukraine.
19 It is not necessarily the same traders that are
20 bringing product here from all the Middle Eastern
21 countries, for example. So, that's an important thing
22 to understand, that some of this that moves from
23 SABIC, for example, which is affiliated with the
24 Middle Eastern supplier, that the producer brings a
25 lot here. There is also a Middle Eastern supplier

1 that has a direct relationship with the purchaser.
2 All of the non-subject imports do not compete on the
3 same basis are necessarily through the same traders.

4 Now, not that the traders, who carry Russian
5 and Ukranian product do not participate in this
6 market, but why is this important? Trading companies
7 make profits by the differential between what they pay
8 for the product and what they can charge for the
9 product, plus there's a function for how much they can
10 move. And so, if you get a cheaper price when you buy
11 it, that's as important a part of the equation as what
12 you're going to get when you sell it. If you get a
13 cheap enough price at the Black Sea, you can take it
14 into the U.S. market for maybe less than you could
15 have taken something else, sell it here for less than
16 you would have sold another product for which you
17 would have paid a higher price, and by Joe, if you can
18 get more of it and sell more of it, you can even get a
19 lower price and still improve your profit. As a
20 trader, that's how it works. And so, the notion that
21 these traders would not undercut their own
22 profitability is more than a little bit silly, for
23 lack of a more technical word, because these traders
24 are profit driven.

25 And the Black Sea product is the cheapest

1 product in the world. The FOB Black Sea prices -- and
2 those published prices, by the way, we'll give you
3 evidence of this -- the published Black Sea prices,
4 not only from Green Markets, but from Fertecon and a
5 whole range of other publications, are the prices at
6 the Black Sea ports to the traders, buy them at the
7 ports there, generally without long-term arrangements.

8 Take a look in your staff report, and I'm
9 not sure whether this number is public, so I'm not
10 going to say it, but your pre-hearing report at 5-4
11 has some information about the percentage of imports
12 that are sold on a spot basis. This product is picked
13 up and it's available and is brought in and sold by
14 the traders on a spot basis. That number is very
15 high. Why is that important? Well, as Mr. Dietz just
16 said, and I hesitate to repeat it, he said, you know,
17 these guys wait for the product to build up and they
18 scoop in and get the best price; that they wait until
19 there's constipation and then they come in and they
20 supply the laxative. I didn't say that. That's from
21 the industry. So, I figured I could pass it along.
22 This is what happens and this is how this product
23 moves into the market. The notion that the trading
24 companies are simply going to use a little bit of
25 Russian, Ukrainian product and you won't even notice,

1 because it will just replace what's there, is simply
2 not correct.

3 I think what has happened with Romania and
4 Estonia is important, not because, at this point,
5 which is relatively soon, I don't think we will see
6 evidence of serious price effects, although we
7 certainly have been seeing it in the market and some
8 of our members are seeing it and hearing about it and
9 it's coming into play, we need to give that a little
10 more time. But what's important is the fact that it
11 is coming here and it is coming here at a very low
12 price and it is prilled urea, some of it is going into
13 the ag market and to do that, the prices have got to
14 be low. Those prices are extremely telling.
15 Surprising to our clients, frankly, given how quickly
16 it happened and what we thought would happen with
17 those countries and what we know their costs are, but,
18 nevertheless, it's a very telling situation.

19 Now, let's talk for a minute about what's
20 going to happen in the market. No one is a perfect
21 predictor of what's happening in a market, what's
22 going to happen with prices or demand or supply or
23 none of us would be sitting here. But, when you
24 listen to Mr. Morgan and you listen to his colleagues,
25 they want to talk to a lot about what's happening with

1 world demand. They really don't want to talk about
2 too much about world supply. We know the plants that
3 are coming on stream. We know when they are coming on
4 stream and we know what that's going to do, not only
5 to the world market, but to the supply available for
6 the United States, number one, and we know what that's
7 going to do in the markets where Russian and Ukraine
8 are currently shipping. There's going to be supply
9 coming out of Iran, Trinidad, Egypt, Saudi Arabia --
10 this is new capacity. We know the Chinese supply has
11 begun to come back into the market, as the export tax
12 has been lowered. It is expected to come even lower.
13 We see if we can find anything hard. I don't think
14 we'll get an affidavit from the Chinese government,
15 but we can provide you evidence of what the industry
16 knows, in any event.

17 This product coming largely from the Middle
18 East, although not entirely, will be directed into
19 Latin America and into Asia, where Russian and
20 Ukranian product has gone. It is much more effective,
21 efficient for the product to go there, to serve those
22 markets from the Middle East, because of freight
23 rates, than it is for it to go from the Black Sea and
24 the Baltics. That product will be replaced. Take a
25 look at the Fertecon study that's attached to Exhibit

1 2 to our brief.

2 The argument about Russia being at full
3 capacity, I talked about that earlier today. I think
4 you have to be a little bit careful, as you have been
5 in some recent cases, in looking at the capacity
6 situation. The capacity over this five-year period,
7 six-year period you've been looking at, has been
8 variable, at best. The Russian capability to supply
9 can't be measured by 2004 performance. These
10 producers are not locked into any particular markets.
11 They're locked into as much production as they can and
12 agreed -- you would think that if they were just
13 producing urea flat out, well, it would be at 100
14 percent. That's not the case, in part, because
15 they've shifted when they can to other products.
16 Sometimes, the trading companies don't provide them
17 the opportunities. They've got those opportunities
18 now. They would like to shift the supply. And you
19 can see what just happened recently, when the Latin
20 American ports were not taking quite as much.

21 The final argument, which is, you know, the
22 U.S. market is not a natural market for this product,
23 so not much of it is going to come here. That is
24 probably as far from the truth as anything can be.
25 This is the world's largest market. I know you've

1 heard it hundred times today, but it is the largest
2 market by far and it is a market, in which the primary
3 use, 70 percent of it, is in the ag market, which is
4 largely granular today, but most of that market will
5 take prills. They'd be happy to take prills,
6 particularly if the prills are discounted. And that's
7 one reason we had Mr. LaFleur come to talk to you
8 about it. We figured you needed to hear that from
9 somebody, who is on the ground, putting this stuff
10 down, who knows the application equipment is not a
11 problem; who knows that at a good price, he'll take
12 it. That's what happened to the Romanian and Estonian
13 product that's coming in. And watch the import
14 statistics. There's more on the way of that stuff and
15 it's all prills. There's not a problem here and it's
16 going -- oh, I have used my time -- and it is going to
17 move quickly and the traders have the ability to do
18 it.

19 I thank you all for your time and attention
20 today. I didn't notice that anybody wasn't
21 concentrating. And we'll be happy to answer all the
22 questions in the post-conference brief. We urge you -
23 - post-hearing brief. We urge you to very carefully
24 consider these things. These orders are incredibly
25 important for this industry over the next five years.

1 Thank you.

2 CHAIRMAN KOPLAN: Thank you, Ms. Slater.
3 Mr. Morgan?

4 MR. MORGAN: Thank you, Chairman Koplan. We
5 thank the Commission for listening patiently to us
6 this afternoon. And I noticed no one fell asleep,
7 which I'll take as a victory from the day's
8 proceedings. I apologize, again, that we didn't have
9 industry witnesses for you.

10 We agreed on a number of facts with the
11 domestic industry coming into this hearing, and now
12 there's even a bit more room for agreement. We agree
13 with Mr. McGlone's testimony, that the variability in
14 Russian producer's capacity utilization varied.
15 Margins for ammonia was higher. That was what was
16 produced. The suggested behavior of a profit
17 maximizer and disproves the claim that Russian
18 producers can sell at any price, because of low gas
19 cost or at least are inclined to do that. We agree
20 with Mr. Klett's statement that the net-back analysis
21 is irrelevant for purposes of any underselling
22 indications. We, also, agree with the statement that
23 the subject producers will continue to produce
24 prilled, as long as they can sell it, and as long as
25 they can sell it, they have no incentive to switch to

1 granular. And we agree with Mr. Buckley's statement
2 that building a granular facility to prilled takes
3 about 12 to 18 months and right now, the only
4 indication, the only one is that perhaps in Ukraine,
5 such a process is being undertaken. So, at least in
6 the foreseeable future, it's prilled and prilled only,
7 particularly from Russia and largely Ukraine. And
8 we'll get into that more in the post-hearing brief.

9 So, drawing on these new areas of agreement,
10 where does that leave us? Well, I think that the
11 question of differences between prilled and granular
12 have been pretty fairly settled, which I take as a
13 significant achievement, as a result of today's
14 proceedings. It certainly wasn't the case coming in.
15 But largely through science, we learn that none of the
16 U.S.-produced prilled goes into the agricultural
17 market and none of the U.S.-produced granular goes
18 into the industrial market. We submit that that's
19 very clear evidence that in the U.S., these are two
20 very different market segments and one that the U.S.
21 industry only serves to the tune of about 26 percent
22 of its shipments.

23 Two, we know that other markets still take
24 prilled without the distinctions that are present in
25 the U.S. And we submit that that does show that the

1 U.S. is not a natural market. The prilled product is
2 not the predominant product here. There are other
3 markets that do take prilled. So that, we would say
4 by definition, makes the U.S. a non-natural market or
5 certainly not a primary market for subject
6 merchandise.

7 Four, we know trading companies supply the
8 U.S. market. We know they price at market-based
9 principals. We know they seek to maximize profits.
10 We know that they are aware of what pricing
11 differentials are. We know that they're buying
12 subject merchandise from an industry that's operating
13 at full capacity and they're selling that into other
14 markets. It's not as though there have not been sales
15 to other markets during the period, where profits are
16 being earned, and incentives to shift to the U.S.
17 requires an analysis of the kind of world market price
18 that we submit exists. And I would just cite,
19 Commissioner, to you, a couple of footnotes in our
20 brief that reference support for this in the
21 questionnaire responses, 218 and 219, and those all
22 stand for the proposition that this is a world market
23 where price is set globally and that global prices
24 impact the U.S.

25 We, also, know that lower natural gas costs

1 exists in other countries. How Russia or Ukraine may
2 obtain their natural gas, whether it's through state
3 subsidization or otherwise, and we'll address that in
4 our post-hearing brief, but how they obtain it, we
5 submit, is irrelevant to the question of what that
6 means for prices in the U.S. We know that other low-
7 cost natural gas sources are present and we know that
8 they've been selling it fair and non-injurious prices
9 by the same companies that will be selling any subject
10 merchandise that might enter.

11 So, we submit that in light of the
12 insignificant volume that's likely to come in based on
13 attenuated competition between different market
14 segments, we submit that there will be not adverse
15 price effects, because not only is there market
16 segmentation, but there's a significant presence of
17 non-subject imports and you do have a gatekeeper role.
18 And as a result, the currently healthy U.S. industry
19 is not likely to be injured by reason of any subject
20 merchandise that might enter. Thank you, very much.

21 CHAIRMAN KOPLAN: Thank you, very much. I
22 want to thank both sides for their -- both their
23 direct presentations, their answers to our questions,
24 and I look forward to your post-hearing submissions.

25 Post-hearing briefs, statements responsive

1 to questions, and requests of the Commission and
2 correction to the transcript must be filed by October
3 3, 2005. Closing of the record and final release of
4 data to parties by November 7, 2005 and final comments
5 by November 9, 2005. And with that, this hearing is
6 concluded.

7 (Whereupon, at 4:27 p.m., the hearing was
8 concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Solid Urea from Russia
INVESTIGATION NO.: 731-TA340-E and H (Second Review)
HEARING DATE: September 22, 2005
LOCATION: Washington, D.C.
NATURE OF HEARING: Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: September 22, 2005

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos Gamez
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Christina Chesley
Signature of Court Reporter