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August 12, 2001

The Director
Trade Measures, Operations 3
Australia Customs Service
Customs House
5 Constitution Avenue
CANBERRA ACT 2601

Dear Sir/Madam,

Re: Glyphosate Anti-dumping Duty Submission-Additional Comments

Further to our previous submission dated August 06, 2001, we have now studied a copy of the Application for Dumping and Countervailing Duties submitted by Monsanto to you and we would like to make additional submissions/comments. Our objective here is to bring further awareness and understanding of the market dynamics to you and your investigation team so that a more informed decision is taken on the Monsanto application.

1. *"India is an appropriate surrogate for China because, in addition to the comparability of the Chinese and Indian economies in terms of their size, diversity, structure and per capita GNP, India is also one of the few developing countries that produces glyphosate in significant volume".*

   As stated in our earlier submission, India is in fact not an appropriate surrogate country for cost of production comparisons. It is not because:

   - It is one of the world's most protected markets with very high tariffs that run into a 45-60% range still. Local glyphosate producers have become uncompetitive as they have no incentive to improve on their efficiency.

- Unlike the Chinese, they don't produce the key intermediates (PMIDA and Glycine) needed for glyphosate production and if they do produce, their volumes are too small as to be efficient. Hence, they import these from China.

- The Indian glyphosate market is closed to competition due to the high tariff as well as stringent registration requirements making it impossible for any generic glyphosate producers who are non-Indian getting a registration there. Hence, the market is only dominated by Monsanto and Indian players. As a result, an artificially high price is prevailing in that market.

- India is a very small market for glyphosate. Perhaps annual consumption is no more than 500 MT of glyphosate acid. Hence, it is unrealistic to compare this against the China market.

2. *"...and rural distributors are state-owned entities in accordance with published regulations thus exacerbating the level of government control and influence."*

In 1996 and before, this may be true but at this stage of the development of the agrochemical market in China, this is now quite far from the truth. A very significant volume or percentage of agrochemicals consumed there are now distributed through private wholesaler and dealer networks. There are many private wholesale markets set up all over China now and once can easily visit and see these in major cities. These markets are commonly known as "Nong yiau yi tiau jia" (meaning, a street-full of agrochemicals) and they are a hive of activity during the growing seasons. Country dealers from a radius of 100 Km would get their supplies from these wholesale markets. Cash is king here unlike in many developed countries where dishing out of cheap credit term could be the norm. Capitalism certainly prevails here.

3. *"Reduced Chinese export prices during 1993 forced Monsanto to reduce its selling prices by more than 13 percent in order to arrest any further erosion in its market share. In 1994, Monsanto sought to regain lost market share by entering into supply arrangements with major importers and formulators".*

This is a debatable and crucial point. Monsanto is accusing the Chinese of reducing export prices but how else could generic producers gain market entry if not by better pricing? As they gained market share, Monsanto defended their share by reducing their prices and because there was so much fat in the margins, this triggered the Chinese to reduce their prices further and thus a spiral effect took place and this is all very natural in any markets. Defending market share by whatever means is going to cost the defender and hence resulting in economic injury. Going out to supply their competitors by entering into supply arrangements will also of course be a costly exercise for Monsanto as these major importers and formulators would look to Monsanto providing at least a 25% margin.

Having said the above, one 's attention should also be drawn to the fact that the reduction of prices by Monsanto over the years cannot be solely due to competition from the Chinese. This, in fact, is a point that Monsanto is using to suit its arguments here. The fact of the matter is that price reduction over the years by Monsanto is part of their widely stated post-patent strategy. We now quote from the New York Times news item headlined "A Weed Killer is a Block to Build On" dated August 2, 2001:

- "Few competitors are willing to produce a generic version of Roundup… because Monsanto has protected its market dominance by cutting the price while finding new uses."
- "The company also lowered the retail price of Roundup years before its patent expired in 2000—dropping it from about (US)$44 a gallon in 1997 to (US)$34 in 1999 to about (US)$28 today. This drove up demand and may have also deterred competitors. At the same time, profits did not suffer; volume gains made up for price cuts."
- "In any case, analysts said it would be hard to compete with Monsanto on price because it could always cut the cost of the herbicide and make up the difference by raising prices for Roundup Ready seeds (which are patented)".

4. *"Price depression and price undercutting attributed to dumped imports has continued with no end in sight".*

In addition to what we have explained in point 3 above, as stated in our earlier submission, many Chinese plants (more than two-thirds) have ceased production of glyphosate acid up to last year (2000) when export prices went below US$3/Kg. As also pointed out earlier, the last 12 months saw great price stability which means that the "end" is already very much here and in full view.

The last season saw a big decline in imports of Chinese glyphosate acid into Australia. Our estimate for imports of Chinese glyphosate acid for 2000/2001 season is 1200 MT (Pacific Agriscience accounted for over 900 MT) and the two seasons before that were 2000 MT and 2800 MT respectively and these figures do not include the volumes brought in by Monsanto themselves. The reason for the big decline in interest in Chinese product is what we have already mentioned previously and that is, since the price between Chinese and Monsanto products are almost the same now and there seems to be stability in the Chinese price, there is no more incentive to buy the Chinese product. "The reason we bought Chinese product was to keep the bastard (Monsanto) honest" was a typical remark! Of course the apparently above-the-law-bundling of Roundup and Round Ready seeds also was a factor impacting demand for Chinese glyphosate.

From the discussion here and our previous submission, the openly-stated strategy of dominance of markets and deterring competition at all cost, Monsanto will remain the only glyphosate player of significance well beyond patent expiry. The strong marketing power of Monsanto from all fronts including this application for anti-dumping duty against the only credible competitor (Chinese producers) left will ensure that any future competitor is marginalised. There is no doubt that anti-dumping duty application is the only effective tactic left to contain the Chinese producers but before the Australian Customs accede to their request, we ask that all points we put forward be given serious consideration and a thorough investigation is followed up.

Lest anyone thinks that it is a foregone conclusion that Monsanto's application will be successful this time around and that you will set an interim and immediate anti-dumping duty to supposedly "arrest the injury", we wish to point out that this action, if indeed taken, will only serve those companies with heaps of inventory brought in earlier very well. The value of their inventory will surge over-night resulting in a windfall. The use season for glyphosate is well over for this year and we don't expect any Chinese glyphosate to be imported by anyone in Australia till early 2002 due to stock carry-over from the last season. Therefore, there is plenty of time for you and your team to investigate this application of Monsanto against the points that we have brought forward in our submissions. Since there is no reason for any further injury, whether self-inflicted or indeed brought about by the Chinese producers, to Monsanto from now till early next year, we do not see any need for you to impose an interim duty.

We look forward to cooperating with you and your team in the ensuing investigation.

Sincerely,

f. Aloma

C S Liew
Managing Director