

EXPERT REPORT

**In Response to the Report of the
Directorate General of Anti-Dumping &
Allied Duties (DGAD) on the Imposition
of Anti-Dumping Duty on Imports of
Soda-Ash**



SUBMITTED TO

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New Delhi

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I. Introduction

1. In accordance with requirements set forth by AIGMF, this report aims to analyze the economic merits of the arguments and analysis presented in the preliminary findings report prepared by the Directorate General of Anti-Dumping & Allied Duties (DGAD) relating to the dumping of soda ash, the subject good of this investigation.
2. In 2010, (DGAD) initiated an investigation against imports of soda ash from China PR, the European Union, Kenya, Iran, Pakistan, Ukraine and USA - the subject countries - with regard to the dumping of soda ash into India.
3. Based on the preliminary findings of a report prepared by DGAD (hereafter DGAD report), the Designated Authority, concludes the following:
 - a. Dumping of soda ash took place during the period of investigation (POI) 2009-2010.

Foreign produced soda ash entered the Indian market from subject countries at values that were below associated normal values calculated by DGAD;¹
 - b. Dumping of imports caused material injury to India's domestic soda ash industry.
4. Our analysis shows that the DGAD's investigation has failed to consider the relationship of India's domestic industry to the rest of the world. In other words, DGAD's analysis does not sufficiently analyze the impact of trends prevailing within the global market on the Indian soda ash industry. DGAD failed to take into account economic factors which led countries, such as the United States as well as China to export large quantities of soda ash during the POI.
5. Based on our economic analysis of the DGAD report and the market conditions relating to soda ash we arrive at the following broad conclusions. First, our analysis shows that the POI is an inappropriate choice to establish injury to the domestic industry, as the POI coincided with the period when the global economy experienced the biggest recession since the Great Depression of the 1930's. Second, the base year – defined as a year of normal and stable economic activities such as production, trade, as well as prices² - considered for analysis by DGAD is an inappropriate choice with respect to establishing normal economic conditions within India's soda ash industry. During the base year of investigation, India's soda ash industry experienced a severe supply side shock due to rains and flooding of soda ash facilities in Gujarat where over 90% of India's production of soda ash takes place.³
6. The rest of the report is organized as follows. Section II describes the characteristics of the global soda ash market and shows how using 2009-10 as the POI led to biased conclusions regarding whether or not dumping into India's soda ash market actually took place. Section III illustrates analytical problems entailed in DGAD's choice of base year, and section IV offers conclusions.

¹ The normal value is the comparable price at which the goods are sold in the domestic market of the exporting country.

² "Choice of the Base Year" Office of the Economic Advisor, India.
<http://eaindustry.nic.in/Technical_Report/Chap3_ChoiceofBaseYear.pdf>

³ Raghu, Sunil "Rains in Saurashtra hit soda ash output, prices" LiveMint 22 October 2007.
<<http://www.livemint.com/2007/10/22213731/Rains-in-Saurashtra-hit-soda-a.html>>

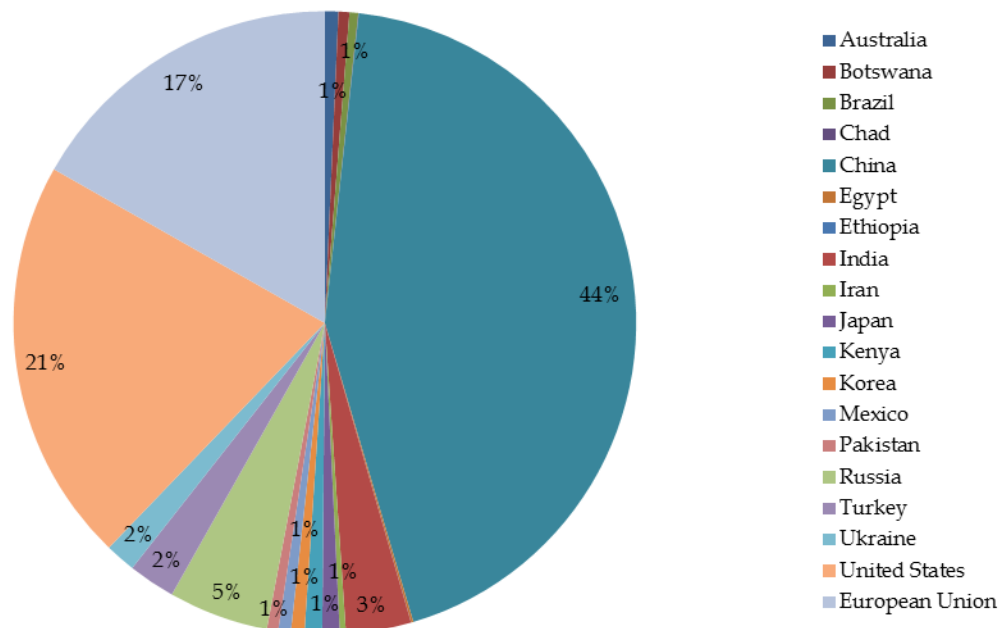
II. Soda Ash Market: Supply and Demand

A. Global

i. World Soda Ash Supply and Demand: India's Role

7. Production of soda ash - a key ingredient in glass, detergents, soaps, water treatment, sodium-based products, pulp and paper requires high level of capital investment, is energy intensive, and logistics costs are considerable.⁴ Globally, end-uses of soda ash are as follows: glass 50%, detergents 15%, chemical 10%, and other uses 25%.⁵ Currently, world soda ash capacity equals to about 57 million metric tons.

Figure 1: Soda Ash World Production Share by Country



Source: US Geological Survey (USGS)

8. Demand for soda ash in 2009-2010 approximately equaled 44 million metric tons. While world demand for soda ash grew at almost 5% per year since 2004, the global financial crisis resulted in a drop of 9.5% in soda ash demand, a loss of approximately 4.6 million metric tons in 2009.⁶ The construction and vehicle manufacturing, which were the industries most affected by the financial crisis, are still recovering, which continues to negatively affect the speed of recovery of global soda ash demand.

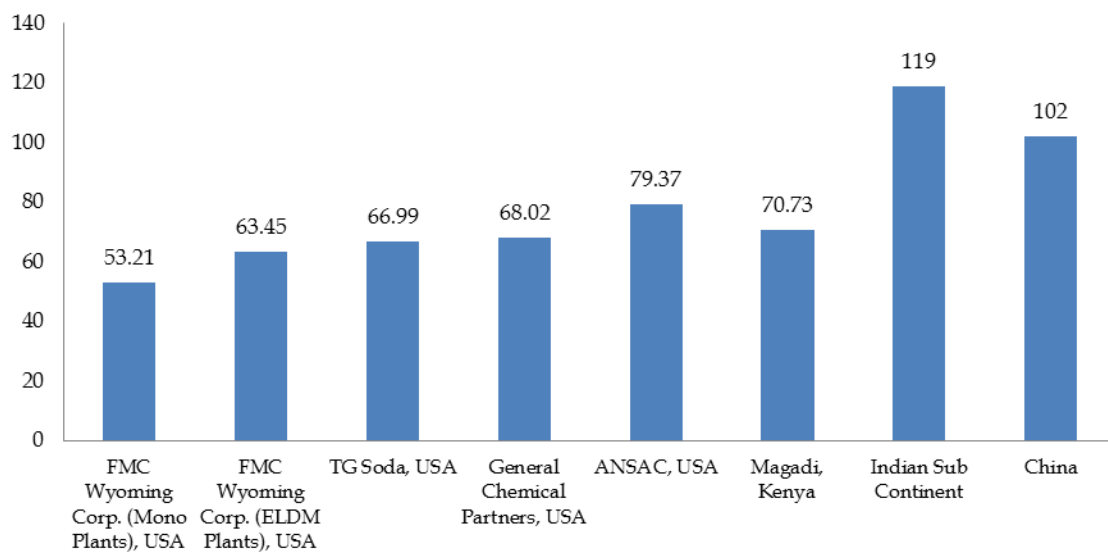
⁴ Nirma Annual Financial Report 2009-2010 ; "Properties and uses of soda ash" [SBIO Informatics](http://www.sbioinformatics.com/design_thesis/Soda_ash/Soda-2520ash_Properties&uses.pdf).
<http://www.sbioinformatics.com/design_thesis/Soda_ash/Soda-2520ash_Properties&uses.pdf>

⁵ GHCL Annual Financial Report 2009-2010.

⁶ Ibid.

9. Figure 1 shows that India's soda ash production is relatively small as compared to other soda ash producing countries. China and the United States lead the world in production volume of soda ash.
10. Figure 2 illustrates the cost of production of soda ash for various countries. Kenya and the United States maintain their cost advantage over other manufacturers by producing natural soda ash.⁷ Production of natural soda ash requires less energy, raw materials, and also less capital than production of synthetic soda ash.⁸ India⁹ and other soda ash manufacturing countries produce synthetic soda ash. The fact that cost of production in Kenya and the United States is approximately 40 percent less than that of India clearly shows the competitive advantage these two countries have over their competition. In other words, their cost advantage allows them to sell soda ash in the international markets at a lower price.

Figure 2: Cash Cost production in USD for soda ash



Source: Tata Chemical Annual Report and Ministry of Finance

11. The following are key factors that affect international soda ash prices; the supply and demand situation in China, business plans of the American Natural Soda Ash Corporation – a sales, marketing, and logistics arm of the United States' three largest producers of soda ash¹⁰ - demand from the glass and detergent industry, and crude oil and gas prices.¹¹ Taking into consideration the abovementioned market constraints, and India's relatively small share in total world production of soda ash - less than 4% - India's soda ash industry is

⁷ "Soda Ash End-Use Markets and Applications" General Chemical Industrial Products 2011.

<<http://www.genchem.com/soda-ash-end-use-markets.asp>>

⁸ Ibid.

⁹ Kostick, Dennis S. "Soda Ash" USDGS.

<http://minerals.usgs.gov/minerals/pubs/commodity/soda_ash/610494.pdf>

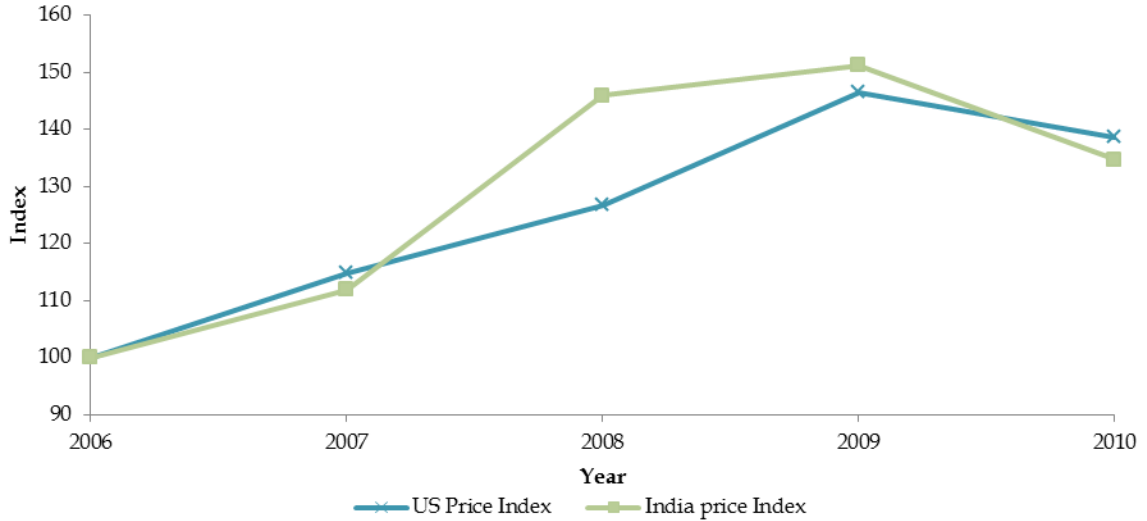
¹⁰ "Company Profile" ANSAC 2011.

<<http://www.ansac.com/about-ansac/company-profile/>>

¹¹ Ibid.

indisputably a soda ash price taker in the global market. Therefore, India's domestic soda ash prices move with the prices in international market (Figure 3).¹²

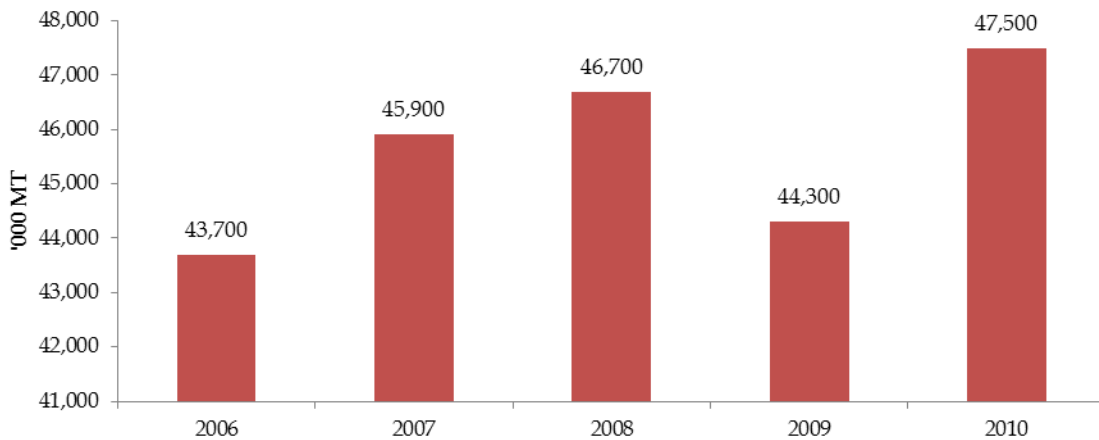
Figure 3: Price Index of India and US; Indexed, 2006= 100



Source: Chemical Market Associates Inc. (CMAI) & Office of Economic Advisor (OEA)

ii. Global Soda ash Demand hit in 2009-10

Figure 4: World Production of Soda Ash: 2006-10



Source: US Geological Survey (USGS)

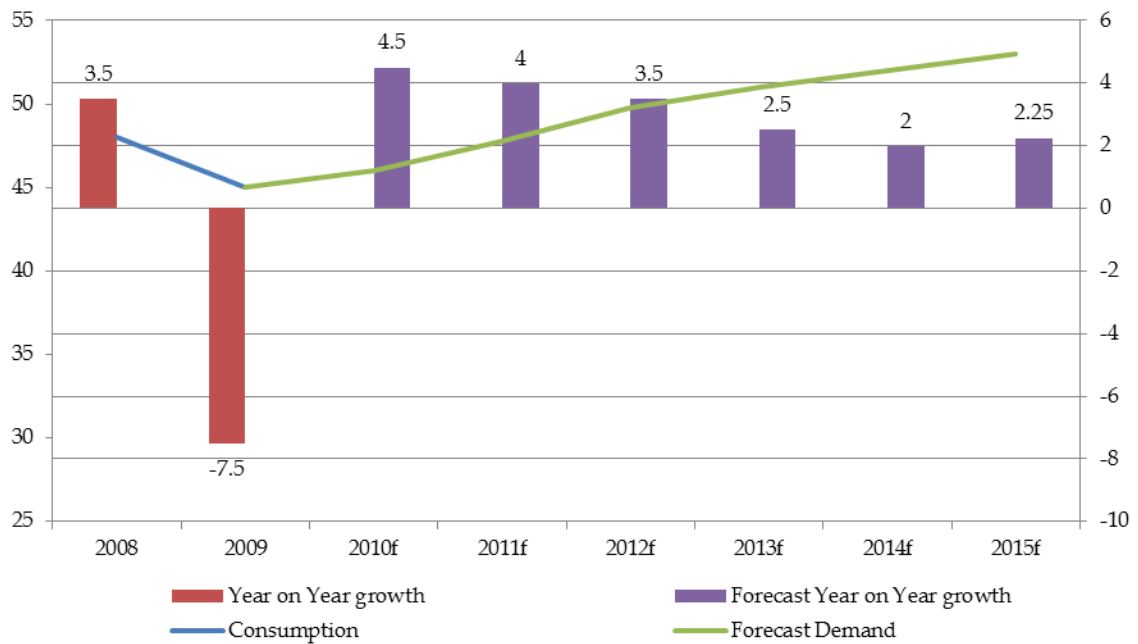
12. Using 2009-2010 as the POI for the anti-dumping assessment is also a poor indicator of sector performance. The POI follows the biggest economic downturn in recent history. The global economic downturn began with a major financial meltdown in the United States' housing market, but also adversely affected vehicle manufacturers. The collapse of construction and

¹² DCW Annual Financial Report 2009-2010.

vehicle manufacturing in the United States contributed to a significant reduction in global demand for soda ash as shown by Figure 4 and 5.

13. This severe reduction was a big change from historic growth of the industry over the past ten years. Due to India's strong domestic growth this reduction in global demand for soda ash did not affect India's soda ash demand severely; however the downturn created a downward pressure on world prices for soda ash. Since India's soda ash prices move with world soda ash prices, India's producers reduced their prices in line with prevailing world prices which was not due to the dumping as alleged by DGAD.

Figure 5: World Soda Ash Consumption and Demand



Source: Roskill (2010)

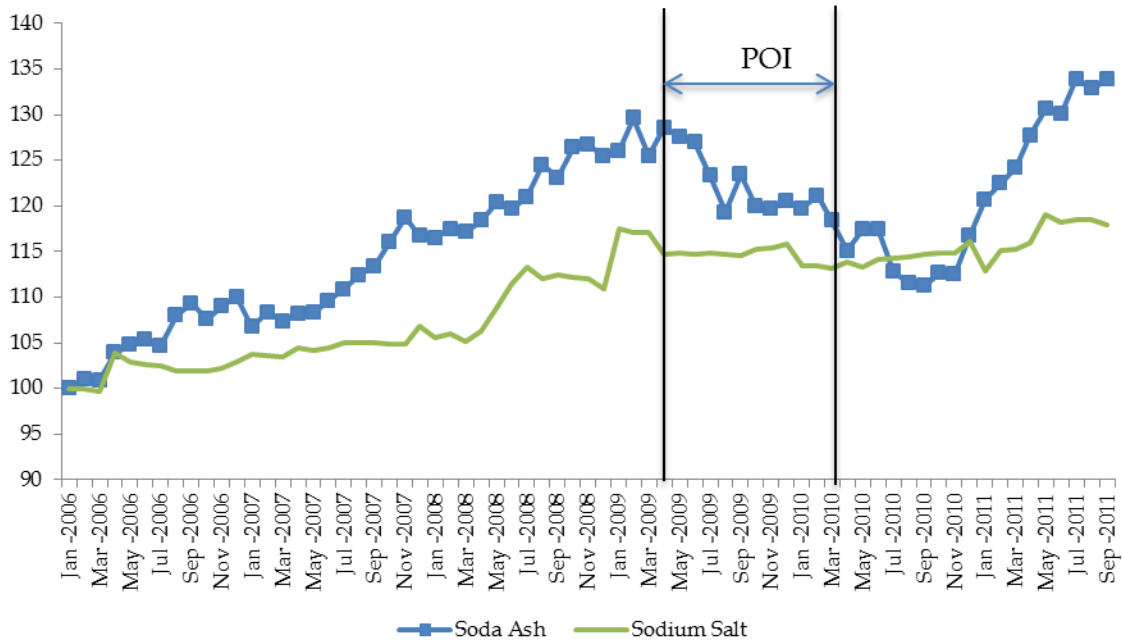
B. Domestic

iii. Analysis on Domestic Soda Ash Price

14. In its preliminary findings report, DGAD claims that there was significant price erosion during the POI (2009-10) due to subject countries' dumping of soda ash. However, only looking at the POI, a year of severe global recession, results in faulty conclusions. Furthermore, one should examine the year/years in which the anti dumping duty is being contemplated (2011, 2012 in this case), as there is a possibility that the price erosion of soda ash would have tapered off due to economic recovery and prevailing market conditions. In this case, imposing an anti dumping duty can significantly distort the domestic market, not only of soda ash, but also for downstream industries using soda ash as an input.

Figure 6 indicates that the soda ash price was dropped by 7% during POI. However, it increased by approximately 19 percent between November 2010 and September 2011, even without the imposition of anti dumping duty. The rise in the price of soda ash is steeper than the rise in the price of salt - one of the major inputs in soda ash production. This indicates that the decline in the price of soda ash during the POI was a short -term effect of the global economic downturn.

Figure 6: Monthly Price Index of Soda Ash and Sodium Salt; Indexed, Jan 2006=100



Source: Office of Economic Advisor

iv. Import Volumes and Market Share

15. DGAD alleges that the imports of soda ash in 2009-10 have increased significantly which lead to decrease in the market share of the domestic industry from 53.62% in base year to 49.42% during POI. However, in the period of economic recovery (2010-11) the domestic market share of the domestic producers has risen back to 52% approximately (Table 1). Furthermore, as illustrated by Figure 7, imports of soda ash from subject countries declined by 15.37% between 2009-10 and 2010-11. This decline can be attributed to the average increase in soda ash import prices after May 2010 (Figure 8). The fact that the increase in market share of the domestic industry and the decline in imports in 2010-11 coincide with the economic recovery indicates that the POI exhibited abnormal market conditions unrelated to any alleged dumping activities.

Figure 7: India's import of Soda Ash



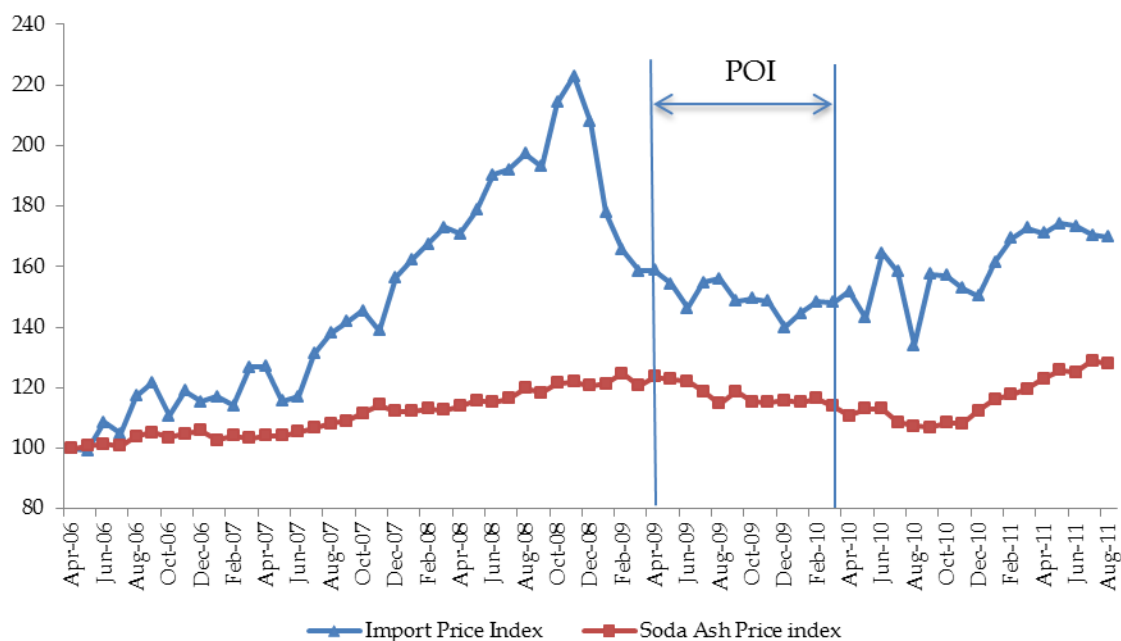
Source: Info Drive India

Table 1: Market Share pattern for Soda Ash Demand in India

	2006-07	2007-08	2008-09	2009-10	2010-11
Demand in India (MT)	21,37,185	21,64,465	21,58,255	24,34,493	27,00,000
Share in Demand (%)					
Domestic industry	53.62	56.22	54.89	49.42	51.91
Other Indian Producers	34.20	27.73	28.50	27.75	30.46
Indian soda ash Industry	87.82	83.95	83.39	77.16	82.37
Subject Countries	11.94	14.75	16.29	21.82	14.93
Other countries	0.24	1.30	0.33	1.02	2.7

Source: DGAD & GHCL, DCW, Saukem, Nirma Annual reports

Figure 8: Import Price of Subject Countries, Soda Ash and Sodium Salt Price Index; Indexed, April 2006=100



Source: Info Drive India

16. Additionally during POI China's share in total imports to India, among the subject countries, was a significant 45 percent. India's imports of soda ash from China, the largest producer of soda ash, increased by a massive 41 percent between 2008 and 2009 as shown in Figure 9. Such a dramatic increase of soda ash imports was due to the following:
 - a. Global economic recession resulted in a decline of demand for soda ash in both China's domestic and export markets.¹³ This decline in domestic and international demand resulted in the fall of the per unit import value of soda ash coming from China.¹⁴ Indian consumers found it more cost effective to import soda ash from China in larger quantities during that time.
 - b. The global recession had a relatively greater impact on demand for soda ash in in China's traditional export markets, namely Indonesia, South Korea, Vietnam and Philippines, than India. Given this (relatively stronger demand for soda ash in India) and the lower levels of prices that prevailed in the global market exports from China increased as shown in Figure 10.

¹³ Ministry of Finance : Report on " Safeguard Duty investigation against imports of Soda Ash in to India from People's Republic of China - Final Findings of Review Proceedings", page 27.

¹⁴ Ibid.

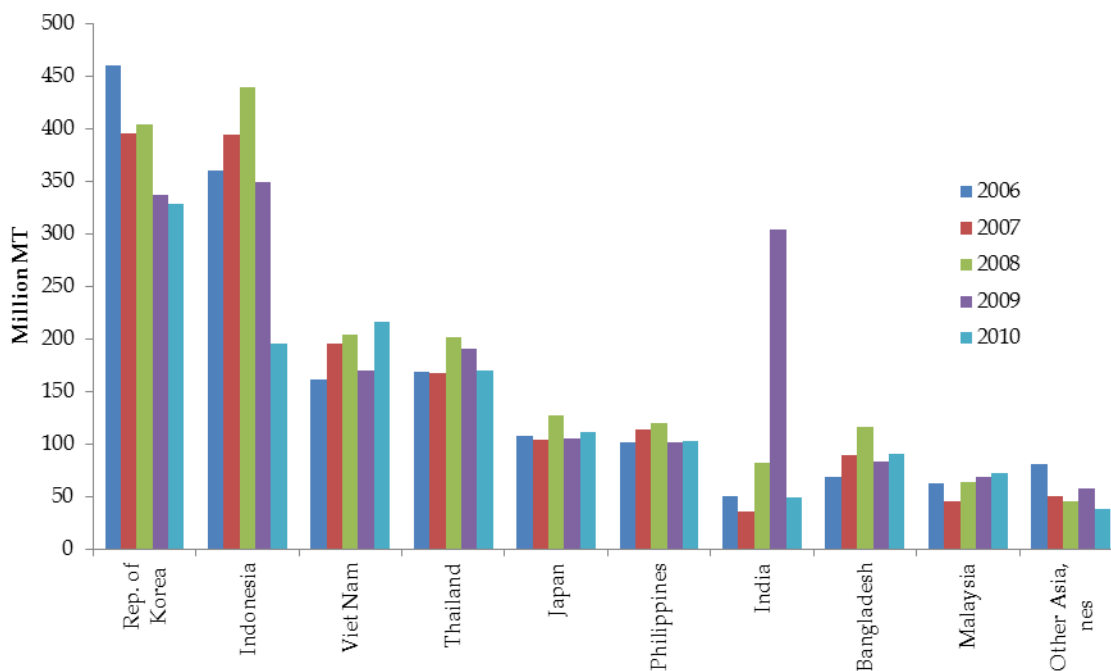
Figure 9: India's Import of Soda Ash from different Countries



Source: InfoDrive India

- China's exports to India increased in 2009-10 in spite of the presence of the safeguard duty. As shown by Figure 12, compared to the POI, exports of soda ash from China (to India) rose by 41.7% in 2009-10 and then declined by 78% in 2010-11. This implies that the sudden surge in exports from China (to India) in 2009-10 was a short run phenomenon primarily driven by the state of the global economy during that period – declining prices due to accumulation of soda ash stocks and relatively weaker impact of the global financial crisis on India. Hence, DGAD's recommendation to impose a heavier anti-dumping duty on soda ash imports from China, as shown by trade flows illustrated above, does not make economic sense.

Figure 10: Exports of Soda Ash by China to Different Countries



Source: Comtrade

Table 2: Status of the Safeguard Duty: China

SI No.	Period of Safeguard Duty	Rate	Status
1	20.04.2009 – 19.04.2010	20%	Imposed
2	20.04.2010 – 19.04.2011	16%	Imposed
3	20.04.2011 – 19.04.2012	14%	Not Imposed

Source: Finance Ministry customs dept.

v. Profitability of India’s Soda Ash Producers

18. Under section 76 (xxii) DGAD alleges that India’s domestic soda ash industry profits declined from 25% to 12%. It is pertinent to note that historical average profitability of chemical industry in India has been fairly low and declining over the years. The profit after tax of Indian chemical industry has been below 10%.¹⁵ In year 2008, the average profitability of chemical and related companies of Fortune 500 companies was mere 5%.¹⁶ Therefore, a profit margin of 12% by domestic soda ash manufacturers was well above the industry performance.

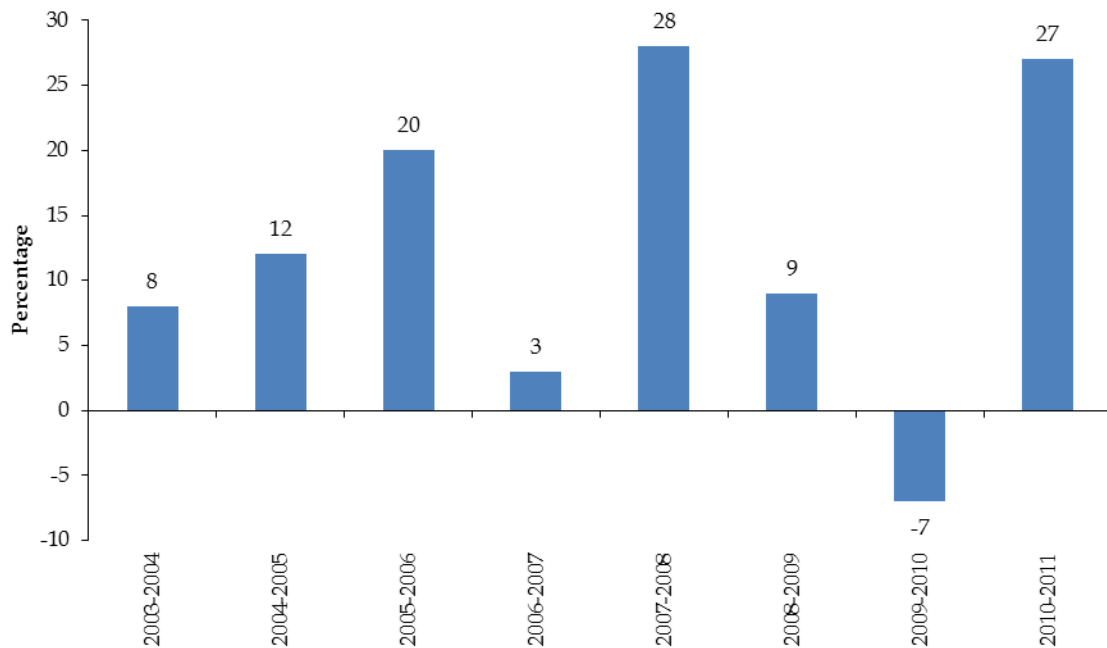
19. Furthermore, as specified in paragraph 12, worldwide profitability of soda ash manufacturers was adversely impacted by the dramatic decline in global demand, which resulted in a downward pressure on the world price of soda ash. Figure 11 and Figure 12

¹⁵ A report on “The Indian chemical industry” by KPMG, page 24. The profitability is specified for the period of 1995 to 2001.

¹⁶ <http://money.cnn.com/magazines/fortune/fortune500/2009/performers/industries/profits/>

shows the total income and profit margin¹⁷ of the soda ash industry in India. The income of soda ash industry grew by a massive 27 % between 2009-10 and 2010-11. The profit margin of the soda ash industry has also increased steeply after November 2010. Furthermore, the Center for Monitoring Indian Economy (CMIE) study reveals that India's soda ash industry's profit after tax (PAT) is expected to more than double in 2011-12 on account of robust demand and sales. Additionally, the rapid increase in prices due to global economic recovery has driven this growth in the PAT of the soda ash industry. This further strengthens our hypothesis that the POI exhibited abnormal market conditions unrelated to alleged dumping activities.

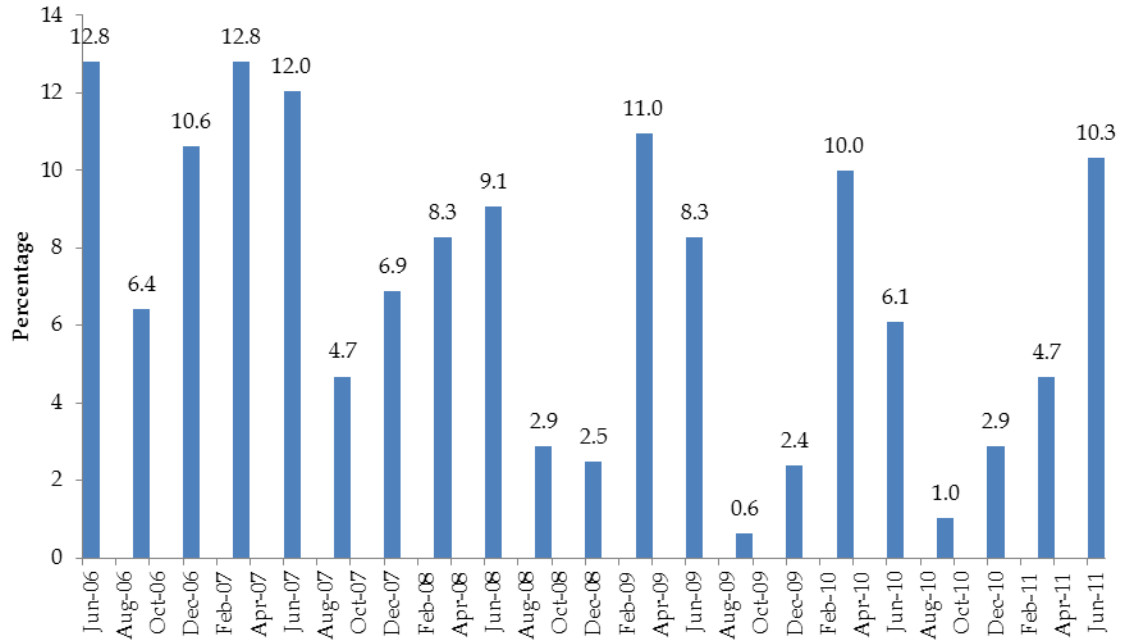
Figure 11: Percentage change in Income growth of soda ash Industry



Source: Center for Monitoring Indian Economy (CMIE)

¹⁷ The profit margin helps to assess the financial health of a business firm or industry. In general, it is defined as the ratio of profit earned to total sales receipts (or costs) over some defined period.

Figure 12: Profit Margin of domestic soda ash Industry



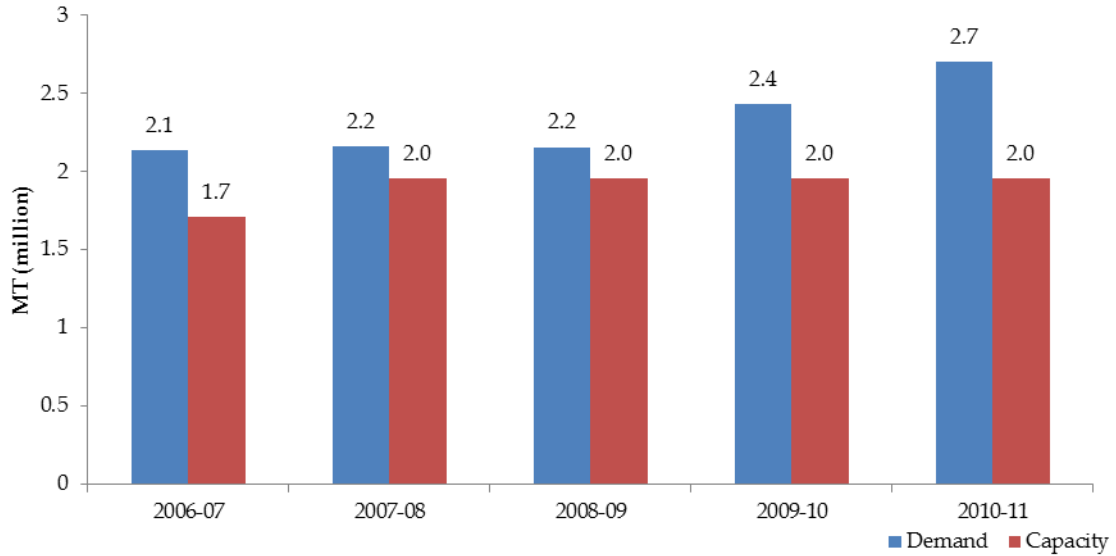
Source: Center for Monitoring Indian Economy (CMIE)

vi. Domestic Demand and Installed Capacity

20. As demonstrated by Figure 13, the total size of India’s soda ash market has increased by approximately 26 percent between 2007-08 and 2010-11. Whereas domestic industry installed capacity has remained constant during this period.¹⁸ The fact that domestic producers have not increased capacity in the face of increased demand for soda ash does not seem economically rational behavior. It indicates that the domestic producers are aiming to keep prices at a supra competitive level by suppressing capacity and by eliminating foreign competition. The domestic industry has misused the duty structure to earn super normal profits.

¹⁸ In this case we are only considering the installed capacity of three big soda ash players; GHCL, Nirma, Saukem & DCW. The same is considered by DGAD.

Figure 13: Installed Capacity of Domestic Industry and India's Soda ash Demand



Source: DGAD & GHCL, DCW, Saukem, Nirma Annual reports

vii. *Periodic Contracts*

21. Short term price changes, whether prices of soda ash increase or decrease, do not affect soda ash producers, because they sign periodic fixed price contracts with downstream consumers of soda ash.¹⁹ While some soda ash contracts include formulae that allow some degree of flexibility to reflect energy cost changes in the prices many do not.²⁰ This means that producers are potentially vulnerable to price increases for energy as well as other inputs that the producer uses to create soda ash. Signing periodic fixed price contracts means that the producer commits to a certain volume of the product at a certain price – insulating the producer from price decreases, for the duration of the contract, while also reducing the producer’s ability to profit from increasing product prices. Lastly, periodic fixed price contracts inherently create a lag on price adjustments. During a recent supply side-shock experienced by India’s domestic soda ash industry, producers of soda ash were forced to buy soda ash from the spot market at much higher prices in order to fulfill their contractual obligations to downstream consumers of soda ash.²¹ Conversely, when soda ash prices dramatically declined during the global economic downturn, producers were partially insulated from the effects of declining soda ash prices based on signed fixed price product contracts.

¹⁹ Hui, Hong Chou “Asia 2009 soda ash talks stall on financial malaise” *ICIS* 09 December 2008.
 <<http://www.icis.com/Articles/2008/12/09/9177715/asia-2009-soda-ash-talks-stall-on-financial-malaise.html>>
²⁰ “Global Soda Ash Service” *CMAI* 15 March 2011.
 <http://www.cmaiglobal.com/Marketing/Samples/SAS_Summary.pdf>
²¹ Raghu, Sunil “Rains in Saurashtra hit soda ash output, prices” *LiveMint* 22 October 2007.
 <<http://www.livemint.com/2007/10/22213731/Rains-in-Saurashtra-hit-soda-a.html>>

III. Anomalous Base Year

22. In India, manufacturing facilities for the subject good are primarily located in Gujarat, which accounts for 90% of India's total production. During 2006-07, the baseline year of investigation, heavy rain and flood affected the manufacturing facilities in Gujarat.²²
23. DGAD's use of 2006-2007 as the base year for analysis of dumping of soda ash into India's market is inappropriate. During the base year of investigation India's soda ash industry experienced a severe supply-side shock. Therefore, given the crisis in 2006-2007, this period cannot be used as a base year to establish normal performance and health of India's soda ash industry.

IV. Conclusions

24. Based on our analysis of the global and Indian soda ash markets as well as facts, data and analysis provided by DGAD in its report, we conclude that the anti-dumping duty on soda ash imports from China PR, the European Union, Kenya, Iran, Pakistan, Ukraine and USA (subject countries) is unwarranted.
25. We base our analysis on the following:
 - a. The POI coincides with the global economic downturn, skewing the DGAD investigation and analysis as a result of the following:
 - i. Global demand for soda ash decreased dramatically during the POI, which created a downward pressure on the world soda ash price, translating into a downward pressure on prices of soda ash in India.
 - ii. Historically, prices of soda ash and its major input, salt, moved together before the POI. During the POI, prices of soda ash and salt did not move together. Furthermore, this relationship resumed after the POI. The POI exhibited abnormal market conditions unrelated to alleged dumping.
 - iii. China's exports to India rose significantly only during the POI. During both pre and post POI period, China exported a low volume of soda ash to India. Furthermore, the Finance Ministry's stance not to impose the safeguard duty on China, effective from April 2011, illustrates that Chinese exports of soda ash are not significantly impacting India's domestic soda ash industry.
 - b. Since soda ash manufacturer's sign fixed period price contracts, the producers' supply commitments insulate them from dramatic price changes, which inherently create a lag on price adjustments. Therefore, signing long term fixed price contracts mitigated the adverse affects of declining soda ash prices and on domestic soda ash producers' profitability during the POI.

²² Raghu, Sunil "Rains in Saurashtra hit soda ash output, prices" [LiveMint](http://www.livemint.com/2007/10/22213731/Rains-in-Saurashtra-hit-soda-a.html) 22 October 2007
<<http://www.livemint.com/2007/10/22213731/Rains-in-Saurashtra-hit-soda-a.html>>

- c. Picking an anomalous base year further skewed the dumping investigation. The base year did not show a normal year of operation for India's soda ash industry due to a severe domestic supply-side shock. Therefore, using this year as a base against which DGAD analyzed whether or not dumping took place could not have produced accurate analysis of the alleged dumping activities.
26. In conclusion, market data collected show that the industry price depression and spike in imports of soda ash from other countries, resulted from abnormal market conditions caused by the biggest global economic downturn in the last 100 years and not persistent dumping by subject countries.