

TESTIMONY OF DAVID HOPKINS

Good morning. My name is David Hopkins, and I am the Director of Sales for CF Industries, Inc., the largest U.S. producer of fertilizer grade ammonium nitrate. My role as Sales Director puts me in charge of the CF sales team, including our sales of ammonium nitrate, which we produce only in Yazoo City, Mississippi. My accent, of course, is not from Mississippi. I hold a degree in Agriculture from Reading University outside of London. After finishing University, I then became a farmer and actually used ammonium nitrate to grow winter wheat in Wales. I have been selling fertilizers since 1998 and, six years ago, I moved to the United States to work for Terra Industries' U.S. fertilizer business. When CF purchased Terra in 2010, I continued my work in fertilizer sales with CF Industries. In total, I have been involved with ammonium nitrate sales for 25 years and with the U.S. ammonium nitrate market for the last six years.

There is no question that the Yazoo City ammonium nitrate business is facing different conditions today than it was when I first came to this country in 2006. At that time, very high and volatile natural gas prices were extremely challenging to us. The advent of shale gas has lowered and moderated the prices of our natural gas input, but, of course, gas price fluctuations always remain a risk for us. Natural gas can account for about 40 to 60 percent of the cost of producing ammonium nitrate, depending on the cost of the gas. But the change in the gas situation does not mean that the antidumping order is not needed, and I want to discuss some of the factors that I hope will help you to understand why.

First, I want to discuss what has happened to the ammonium nitrate market over the last six years. Second, I want to discuss the operations at our Yazoo City plant.

Finally, I would like to take a few minutes to describe the current state of the ammonium nitrate market and what is happening, especially with respect to imports.

In the United States, ammonium nitrate has always been a niche fertilizer. Because of the properties that Mr. Gough described, this fertilizer is very effective and preferred in temperate climates, especially when no till farming practices are used. Even though it has always made up a small part of total U.S. nitrogen fertilizer usage, over the last decade, and especially over the last six years, the ammonium nitrate market has contracted substantially. The principal reason for this is that new security regulations governing the handling of ammonium nitrate by distributors and dealers have led many of them to decide not to carry it.

In those regions where ammonium nitrate is not strongly preferred, many distributors and dealers have stopped buying the product. Today, the U.S. market is down to around a million short tons, almost half of what it was just a few years ago. You might not think that would be such a bad thing, given that there are only two producers left in the U.S. Yet even with the reduced domestic supply, the market has contracted so much, and imports continue to find this market so attractive, that our Yazoo City plant – which is very well situated to serve the key ammonium nitrate markets – remains underutilized. Why is that?

At Yazoo City, we have two prilling towers. Before CF purchased the plant, Terra had entered into an agreement in 2006 to produce explosive grade AN on one tower for a particular customer. Terra made the decision to produce explosive grade because the high density AN market was not allowing us to use all of our capacity. Retrofitting the plant to allow one tower to produce the explosive grade AN was a bit of a “hedge”

against the continuing shrinkage of the fertilizer market. At least for the next few years, that tower is likely to only produce industrial grade product, given our contractual commitments. The other tower, however, is and remains fully dedicated to production of high density AN, but as you know from the data we supplied you, even that capacity is not fully utilized, but not for the reasons argued by the Ukrainians. That capacity is underutilized because we currently are unable to sell all that we could produce.

The Ukrainian producers would tell you that our capacity is underutilized because we are choosing to make other products instead of ammonium nitrate. This is not correct. While the CF financial reports noted by the Ukrainians refer to our ability to shift production in certain circumstances, these reports reflect CF's system-wide ability to shift between products. However, this flexibility is in fact very limited at our Yazoo City plant. The prill tower that produces high density ammonium nitrate cannot produce low density product. Our ability to switch from producing high density AN to producing urea ammonium nitrate solution is also extremely limited based on operational limitations. Accordingly, although the specific figures are confidential, we have very little ability at Yazoo City to shift high density AN capacity to other products.

It is also important for you to understand that even if we could physically shift from production of high density ammonium nitrate to other fertilizer products, we have no incentive to do so based on the netbacks we achieve on our HDAN sales from Yazoo City. We would like to be making and selling more ammonium nitrate. This is a key point, and brings me to the present market situation.

In the past several years, we have had more fertilizer grade AN capacity than we have been able to use. In 2013, this has been especially true, as our agricultural grade

AN sales did not keep up with production in the first quarter, for several reasons that I believe are important to explain. In 2012 and so far in 2013, there has been a significant increase in imports. The imports, sourced largely from the country of Georgia, are imported by global trading companies. They have filled our historical storage positions in Florida and elsewhere, leaving CF to dial back its HDAN production at Yazoo City in the first quarter of this year from planned levels. Traditionally, over 10 percent of our annual sales have been to customers in Florida. When we briefly had production difficulties at our plant last year, imports immediately stepped in, and then some. As Mr. Gough explained earlier, when the off-season storage is filled by imports, U.S. producers have no choice but to reduce production, which cannot be made up later in the season and the volume is lost. I would be pleased to provide you details on these recent production cutbacks on a confidential basis, but suffice it to say, it is not a good situation for a plant that was already not operating at capacity. Keep in mind that with the contracted market, we also have much less storage in the system. This means it takes much less in the way of imports to congest the distribution system than it did when the market was larger.

In this regard, it is important to consider the role of global trading companies in the ammonium nitrate market. During my 25 years in the ammonium nitrate business on both sides of the Atlantic, I have seen the same pattern time and again. Global traders brought large volumes of aggressively priced imports from Russia and then Ukraine into the EU, resulting in antidumping measures there. The traders then shifted to the United States, giving rise to antidumping orders in this country. The traders' *modus operandi* is to move as much product as they can as long as they make some

margin on every ton, even if they undersell the market. That was true when they flooded the U.S. market with Ukrainian product in 2000, and it remains true today. The traders love this market and are well-established here. They know they will get paid. The ports are efficient compared to other countries. A number of traders have set up offices and storage in Tampa and have their own marketing capabilities and even distribution systems. Ukrainian producers continue to sell their other nitrogen products to the United States through well-established global traders.

In addition, the U.S. market offers central Gulf port locations with easy access to the river system and other forms of transportation. There's no question that Ukrainian HDAN exports could quickly be diverted to the United States by the trading companies that handle it. Finally, the current and future U.S. security regulations on ammonium nitrate simply do not impose significant burdens on importers. The increase in imports over the past 18 months speaks for itself.

CF is doing well and natural gas prices have moderated. But there are a number of reasons why this order continues to be important to us. First, the U.S. HDAN market is currently facing uncertain times. The already contracting market is stressed by the prospect of new security regulations that could further reduce demand. As more and more retailers abandon HDAN, alternative products, such as coated urea, are marketed in competition with HDAN, placing additional pressure on an already diminished market. Second, CF Industries is the largest U.S. producer of HDAN and is well-situated in Mississippi to serve the largest AN consuming markets. We compete with imports daily and do so successfully when they are fairly traded. But in a one million ton market, it will not take much in terms of sudden increases in import volumes and price

undercutting to lead to production cuts and reduced utilization rates. This is especially the case if the U.S. market declines even further once the new security rules are imposed. As the market grows smaller, the negative impact of unfairly traded Ukrainian imports would only be magnified. We have seen how the massive Ukrainian export volumes can quickly flood a market at low prices. We have seen it here and in Europe, and again in the EU after the order was lifted there last year, when Ukraine sent 100,000 tons in the six months immediately after the order was removed. Their export prices to the EU were significantly below the pricing of all other imports. That is the only way that traders quickly move large volumes in this industry.

You can understand, with the uncertainties we are facing, and a market that is already in decline, why we are asking you to allow this order to continue.

I thank you for the opportunity to appear before you today and would be happy to answer any questions you may have.