

Introduction – why impose a duty?

The Vietnamese government in late July 2017 put in place punitive interim anti-dumping duties on DAP fertilizer imported from any source that had a greater than 3pc import market penetration, as defined under government import statistics for 2015. This has effectively banned the import of DAP from China, which accounts for the vast majority of supplies. Vietnam is the third-largest global importer of DAP after India and Pakistan, accounting for around 6pc of all trade.

The policy, designed to run through to 6 March 2018, has been introduced to bolster the ailing state-owned domestic DAP fertilizer plants of Vinachem, which have run at below operational capacity for several years.

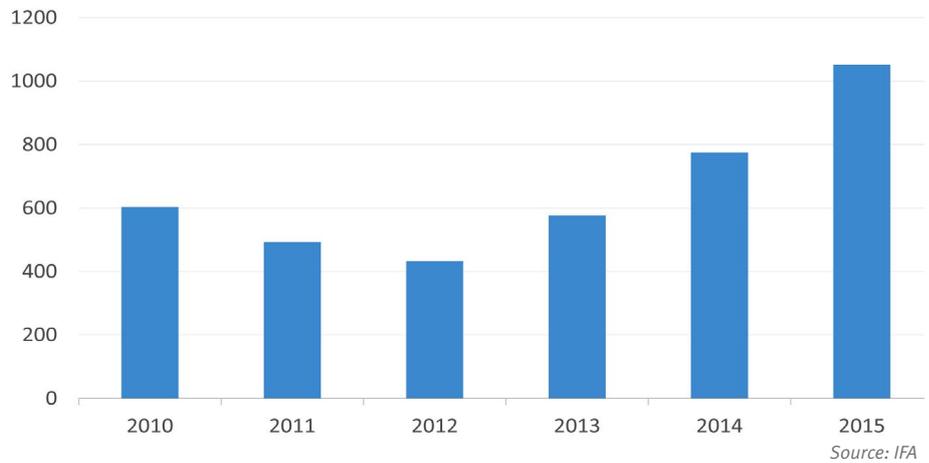
An industry and trade ministry document from 12 May 2017 said that there was a causal relationship between increased DAP imports and serious losses at Vinachem, which has argued that higher imports led to lower sales of domestic DAP, revenues and market share.

The policy took effect on 19 August and involves a 1.86mn dong/t (\$81.65/t) duty applicable to DAP, MAP and various NP, NPK and PK products. But products with less than 7pc nitrogen, below 30pc P₂O₅, or more than 3pc K₂O content are exempt, meaning DAP is the primary focus as comparatively little MAP is imported. The anti-dumping duty is paid in addition to any standard import tax.

Vietnam’s importance as a DAP market

The policy practically excludes supplies from key origins, which is significant as Vietnam is a major DAP importer that have grown steadily since 2010, according to IFA statistics.

Vietnamese DAP imports 2010-2015



NPK fertilizers are the most important in Vietnam in terms of consumption. Of a 10mn t/yr total fertilizer offtake, close to 40pc consists of NPKs with about 90pc produced domestically. This indigenous NPK capacity is estimated at nearly 5mn t, of which 60pc is from Vinachem. Within Vietnam the NPK sector uses DAP as a raw material for its own manufacture. Phosphate fertilizer is primarily used on crops such as rice and coffee. South Vietnam is the major consuming region.

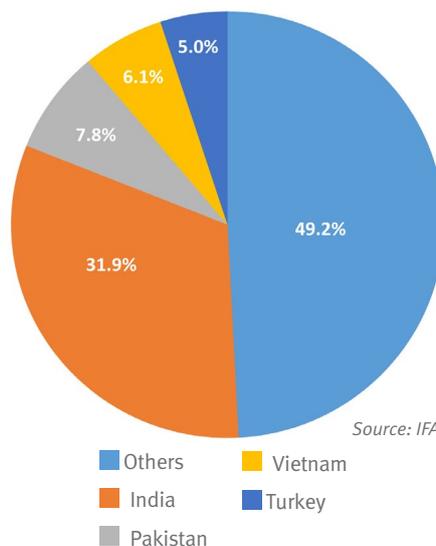
DAP consumption is around 900,000 t/yr. But within the globally traded DAP market of around 16mn t/yr, Vietnam is one of the largest behind India and Pakistan. It accounts for around 6pc of all DAP trade as of 2016, according to IFA data.

The reliance on Chinese DAP imports is considerable. China in 2016 accounted for around 86pc of all DAP imports of around 800,000t. Chinese producers such as YUC have managed a significant market share within Vietnam. The country historically has had to rely on imports for around 60-70pc of its needs because of low operating rates within Vietnam.

Vietnam accounted for 12pc of all Chinese DAP exports. If the anti-dumping duty was to become permanent, the adverse impact on Chinese producers will displace DAP into other export markets, or lead to a reduction in output within China.

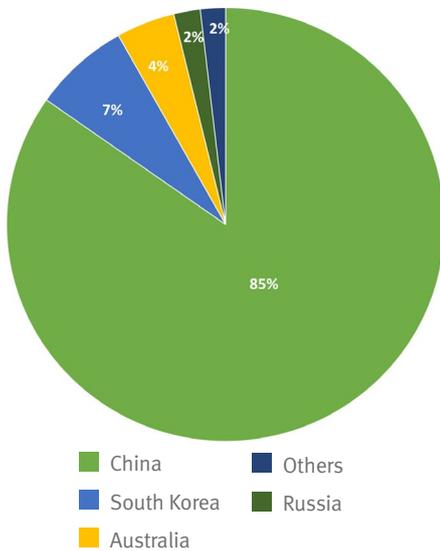
Of the total availability of DAP in 2016, with 800,000t imported and 220,000t domestic production, only 140,000t was used by the NPK sector as a raw material. The 770,000t vast majority is directly applied by farmers to crops with 210,000t exported.

Total DAP trade globally



Imports 2016

Source: Argus and GTIS



Import duty has short-term effect

Chinese DAP fertilizer producers in the short term have paradoxically benefited from the duty, selling heavily into the market before the duty was imposed, with an estimated 100,000t of DAP booked in the later stages of July and first-half August. Prices rose from the higher \$335/t fob China to \$345-350/t fob China to secure supplies. This compared with netbacks from China's primary export markets on the Indian subcontinent at a high \$330-340/t fob.

The result of all this buying has been a substantial rise in DAP stocks within Vietnam, which are now estimated at 200,000-250,000t from all origins, including Australia, Russia and China. Vietnam's importers have now taken a step back in the face of low seasonal demand, higher prices demanded by private-sector importers and rising stocks, which are expected to meet the country's requirements up to the end of this year. The next season begins in October/November, and it will take several weeks before the full impact of the duty is known. Vietnam's DAP import requirement is likely covered into 2018, by which time the duty may have been lifted. This may limit additional export opportunities for DAP producers that are exempt from the duty in the short term.

Vietnamese market participants on the potential downside are concerned that China may retaliate with duties of its own on Vietnamese agricultural exports such as rice.

Anti-dumping exceptions

A number of countries are exempt from the tax, including Morocco, Jordan, Mexico, the Philippines and North Korea, although other usual suppliers Australia, Russia and Saudi Arabia are not. These producers report limited interest from Vietnam currently for fresh supplies as the length of the policy is unknown and current stocks are high. Trading firm Ameropa was confirmed as having bought a 30,000t Mexican DAP cargo and issued a freight enquiry for late September loading from Lazaro Cardenas to Vietnam, although a sale was unconfirmed.

Domestic production assets

Vietnam boasts two DAP production plants. Vinachem completed the much-delayed 330,000 t/yr DAP facility at Hai Phong in Dinh Vu province in 2009. Built with Chinese technology and by Chinese contractors, the plant has experienced problems with the processing of phosphate rock and the processing technology and operating rates have been much reduced. The second is a 2 x 330,000 t/yr plant at Lao Cai in the north of the country, which came on stream in 2015.

The P₂O₅ content of the DAP is estimated at 61-62pc. Conventional 18-46 DAP as exported by China and

other sources is 46pc. This could pose issues for farmers wishing to apply DAP directly. Concerns have also been raised as to water solubility and impurities.

Production rates are improving according to latest available data, rising to a high of over 450,000t in 2015 following the commissioning of the second plant. But production fell back again in 2016 to previous levels. Current utilisation rates are roughly 20-30pc based on nameplate capacity of 990,000 t/yr.

Following the imposition of the anti-dumping measures, there has been an increased interest in raw material purchases for domestic DAP production. Sulphur enquiries have risen from the normal 15,000t import cargoes every four to six weeks to enquiries for 50,000t over the same period. Domestic prices have also remained steady indicating firmer interest. Demand for sulphuric acid has also risen for import into Haiphong port. This suggests intentions to raise domestic production.

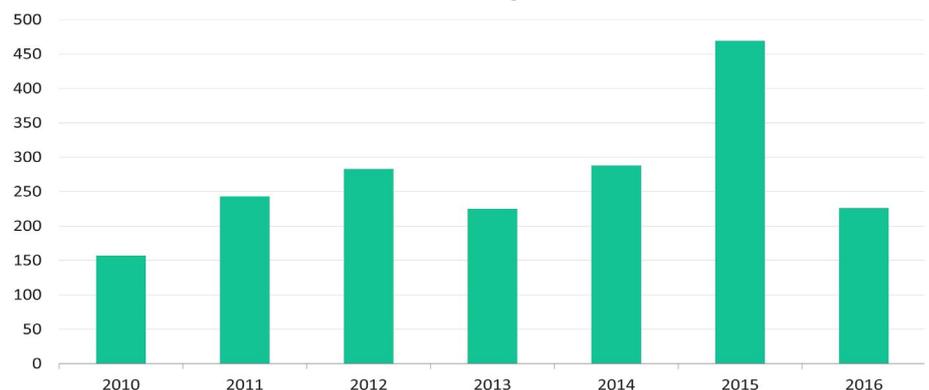
Imports versus domestic production versus consumption

The key question is whether domestic production can fill the void left by the absence of Chinese DAP imports.

Apparent consumption, measured as imports plus domestic output minus exports, has risen steadily in recent years, mainly because of increased imports.

Indigenous Production

Source: IFA and Vietnamese government data



The direct application market is estimated at 500,000-600,000 t/yr, roughly equal with DAP imports that supply the majority of this market. If present DAP consumption patterns were to continue, then domestic production will have to ramp up substantially to meet demand, or more imports will have to come from duty exempt origins. The question becomes of how acceptable domestic DAP becomes in feeding the direct application and NPK markets.

Korea-Vietnam Fertilizer is scheduled to commission its new 360,000 t/yr steam granulated NPKs plant in the fourth quarter. The Ho Chi Minh City plant will focus on the production of high nitrogen-content NPKs but plans to import DAP as a raw material.

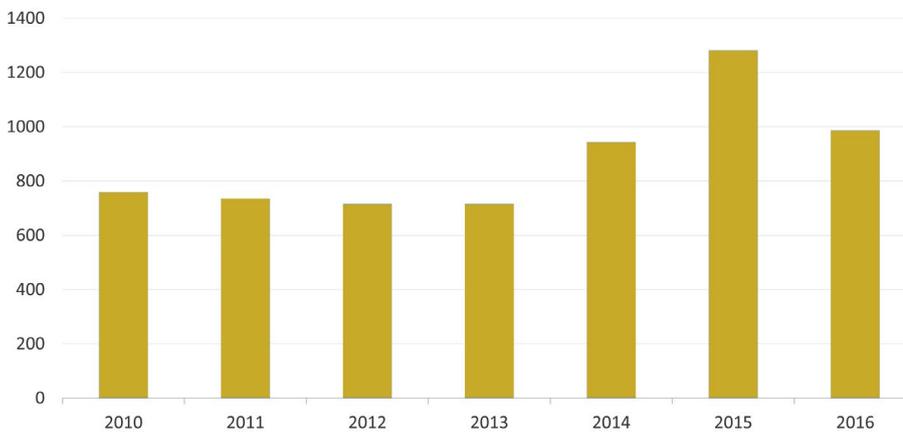
Other NPK projects in Vietnam include PetroVietnam Ca Mau's 250,000-300,000t/yr steam granulation unit in Ca Mau, which will meet domestic demand in the Mekong delta region. The

origins for direct application. Some domestic NPK manufacturers have expressed concerns about the quality of domestically produced DAP so there will be a major barrier to greater consumption of this material.

If the duty remains in place the prospects are:

- Vietnam becomes more of a lower grade DAP market, as Brazil has become in the MAP market now that it takes significantly discounted 10-50 and 11-44 MAP from China.
- It imports more DAP from more diverse origins.
- It smuggles more DAP over the border from China.
- It could reverse/abandon the anti-dumping duty, which appears to be the consensus view within and outside Vietnam.

Apparent consumption



Source: IFA

DAP consumption theoretically is to continue to grow with the commissioning of several new NPK units by the end of this year, adding a total capacity of 710,000 t/yr. NPK plants use DAP as a feedstock for production.

Vinacam in September 2017 started production at its new 100,000 t/yr steam granulated/bulk blend NPK plant at Long An.

PetroVietnam Fertilizer and Chemicals is expanding its capacity at its Phu My facility and expects to commission an additional 250,000 t/yr of chemically granulated NPKs in mid-October.

plant is scheduled for commissioning by the end of 2018, taking total new NPK capacity by the end of 2018 to around 1mn t/yr.

The increase in NPK supplies will meet rising demand in Vietnam, which is currently forecast to be in a 3.8mn-4mn t/yr range. But this is forecast to increase by 1-3pc/yr during 2017-20, accelerating to 3-5pc in 2021, according to PetroVietnam.

Conclusions

The market for direct application DAP will face a shortage if imports are curtailed. Farmers are accustomed to high-quality DAP from China and other

A review of the policy is set for November, with a final decision whether or not to uphold the duty in March 2018. Given that Chinese DAP producers are comfortable with Indian subcontinent demand through to October, there has been little concern expressed by Chinese market participants. With stocks high, extra demand is minimal. This may change come November when the pull on Chinese product seasonally winds down.

