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Review

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VIA MESSENGER

The Honorable Donald L. Evans
Secretary of Commerce
Attn: Import Administration
Central Records Unit, Room 1870
U.S. Department of Commerce
14th Street and Constitution Avenue, N.W.
Washington, D.C. 20230

Re: Changed Circumstances Review of the Solid Urea Order Against Lithuania: Request for Comments Regarding Lithuania's Non-Market Economy Status

Dear Secretary Evans:

On behalf of the Ad Hoc Committee of Domestic Nitrogen Producers, Petitioner in the above-referenced proceeding, we hereby provide comments concerning Lithuania's non-market economy status in response to the Department's request for comments, 67 Fed. Reg. 57393 (Sept. 10, 2002). As the Department is aware, natural gas is the primary feedstock in the production of urea and other nitrogen fertilizers. Therefore, the Ad Hoc Committee respectfully urges the Department, in its assessment of Lithuania's non-market economy status, to carefully examine whether energy prices in general and natural gas prices in particular are market-determined in Lithuania.

The continuing role of the government in natural gas importation and transport and the role of Gazprom, Russia's largest producer and exporter of gas, as Lithuania's largest supplier of natural gas, merit particular scrutiny of natural gas prices. According to the U.S. Department of Energy, Lithuania has no domestic natural gas production and therefore relies on imports to fulfill its natural gas needs.¹ Lietuvos Dujos ("LD"), which controls Lithuania's natural gas transmission and distribution infrastructure and supplies approximately one-third of the gas required to meet domestic demand, is an only partially-privatized state-owned enterprise.² In December 1999, LD signed a long-term contract with Gazprom,³ and in 2001, Gazprom supplied 375 million cubic meters of gas to LD, which was approximately 43 percent of the total volume of gas imported by LD.⁴ Gazprom is expected to supply 450 million cubic meters to LD in 2002 at a price of \$80 per thousand cubic meters.⁵ This price is considerably below the average price of \$132 per thousand cubic meters that Western European countries have recently paid for Russian gas.⁶

¹ See Energy Information Administration, "Baltic Sea Region Country Analysis Brief" (Dec. 2001), at 13 (hereinafter "EIA Brief"), at <http://www.eia.doe.gov/emeu/cabs/estonia.html>.

² See "AB Lietuvos Dujos in Brief" and AB Lietuvos Dujos Annual Report 2001 at 17, at <http://www.dujos.lt/en2.html>.

³ See EIA Brief at 13.

⁴ See LD Annual Report at 19.

⁵ See "Gazprom Maintains Former Gas Prices in Lithuania" *Pravda* (July 6, 2002), at http://english.pravda.ru.comp/2002/06/07/29970_/html.

⁶ See "New consortium to take part in privatization of Lithuanian Gas," *Alexander's Gas and Oil Connections* (July 17, 2001), at <http://www.gasandoil.com/goc.company/cnr12955.htm>.

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To the best of Petitioner's knowledge, Achema, the sole Lithuanian producer of nitrogen fertilizers and the single largest consumer of natural gas in Lithuania, accounting for nearly 28 percent of total annual consumption,⁷ buys at least some of its natural gas directly from Gazprom.⁸ Petitioner believes that Achema also purchases natural gas from Gazprom at prices in the range of \$80 per thousand cubic meters, well below the Gazprom export price to Western Europe.

Prices of natural gas supplied from Russia to former Soviet Republics have been significantly influenced by government policies rather than supply and demand for the gas.⁹ While Lithuania is not part of the CIS, given this background, and the discrepancy between Russian gas prices to Lithuania and to Western Europe, the Ad Hoc Committee respectfully submits that a close examination of the natural gas market in Lithuania is warranted in order to ensure that consumers (and particularly Lithuania's fertilizer sector) obtain gas at commercial prices. As the Department has previously noted, energy prices that are not market-determined have significant distortive effects on a country's economy.¹⁰ Moreover, should the Department determine that Lithuania merits revocation of its non-market economy status, the Ad Hoc Committee respectfully requests that the Department give careful consideration to natural gas

⁷ See LD Annual Report at 17.

⁸ See "Actual Development in Member Countries: Lithuania," International Gas Union (Aug. 2, 2000), at 1, at http://www.igu.org/database/dev2000/2000/lithuania_e.htm.

⁹ See, e.g., "The Commonwealth of Independent States' Troubled Energy Sectors," Finance and Development, Vol. 39, No. 3 (Sept. 2002) ("Gazprom has long engaged in quasi-fiscal activities by delivering low-cost gas throughout Russia and to selected CIS countries. . . ."), at <http://www.imf.org/external/pubs/ft/fandd/2002/09/index.htm>.

¹⁰ See Inquiry into the Status of the Russian Federation as a Non-Market Economy Country Under the U.S. Antidumping Laws, Department Memorandum (June 6, 2002), at 18.

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prices in any future antidumping investigations involving Lithuania to ensure that the price of natural gas is a reliable and legally viable measure of value for the Department's analyses.

If you have any questions regarding this submission, please do not hesitate to contact the undersigned.

Respectfully Submitted,

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Anne K. Cusick

Counsel to the Ad Hoc Committee of
Domestic Nitrogen Producers