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SELECT COMMITTEE ON AGRICULTURAL AND RELATED
INDUSTRIES

Reference: Pricing and supply arrangements in chemical and fertiliser markets

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**SENATE SELECT COMMITTEE ON
AGRICULTURAL AND RELATED INDUSTRIES**

Wednesday, 4 February 2009

Members: Senator Heffernan (*Chair*), Senator O'Brien (*Deputy Chair*), Senators Fisher, Milne, Nash and Sterle

Participating members: Senators Abetz, Adams, Arbib, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Carol Brown, Bushby, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Eggleston, Farrell, Feeney, Ferguson, Fielding, Fierravanti-Wells, Fifield, Forshaw, Furner, Humphries, Hurley, Hutchins, Johnston, Joyce, Kroger, Lundy, Ian Macdonald, Marshall, Mason, McEwen, McGauran, McLucas, Minchin, Moore, Parry, Payne, Polley, Pratt, Ronaldson, Ryan, Scullion, Siewert, Stephens, Troeth, Trood, Williams, Wortley and Xenophon

Senators in attendance: Senators Fisher, Heffernan, Joyce, Nash and Sterle

Terms of reference for the inquiry:

To inquire into and report on:

The pricing and supply arrangements in the Australian and global chemical and fertiliser markets, the implications for Australian farmers of world chemical and fertiliser supply and pricing arrangements, monopolistic and cartel behaviour and related matters.

WITNESSES

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Committee met at 3.39 pm**HUXTABLE, Mr Leighton Stanley, Private capacity**

CHAIR (Senator Heffernan)—The committee is hearing evidence on their inquiry into the pricing and supply arrangements in the Australian global fertiliser market. I welcome everyone here today. This is a public hearing. Before the committee starts taking evidence, I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. The committee prefers all evidence to be given in public but under the Senate's resolutions witnesses have the right to request to be heard in private session. It is important that witnesses give the committee notice that they intend to seek to give evidence in camera. If a witness objects to answering a question the witness may state the ground on which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer a witness may request that the answer be given in camera. Such a request, of course, may also be made at any other time. Welcome, Mr Huxtable. Would you like to make an opening statement?

Mr Huxtable—I am a farmer from South Australia, at Karoonda. I am also Chairman of the newly formed company Direct Farm Inputs. My previous experience in fertiliser is as follows. I was Chairman of Direct Fertilisers in South Australia, which was a grower owned and run fertiliser company, for eight years. We sold that to ABB in late 2004, and ever since then I have watched with dismay the rise in fertiliser prices. Having had the experience and knowing what to look for, I believe that the fat was getting larger and larger. I attempted to do something about this last year, and I ran out of time. This year I started up the new company Direct Farm Inputs in conjunction with my partner, John Hurley, from Western Australia. That was born out of necessity. Being a farmer myself, I knew that the prices that were being spoken of at that stage of around \$1,600 to \$1,850 for MAP or DAP product was just not sustainable from a farmer's point of view. We started up Direct Farm Inputs to try and reduce prices. When we released our price on 12 December of \$1,030 for MAP and DAP, with a further rebate to come, growers got right behind us and opposition companies immediately matched our price.

CHAIR—Thank you very much for that and for your attendance here today. I have to say you have brought a new dynamic to the fertiliser market. As you would be aware, in the weeks leading up to the announcement of your business pursuit in the importation of fertiliser, a lot of press was given by one or two of the key players saying that prices could not come down because of the expensive stock in the inventory. That outraged most farmers in that they got it, I say colloquially, up the backside last year as the prices rose. We have plenty of evidence that the stock was withheld from the market. Fertiliser was in the system at 700-odd dollars a tonne and went into retail at \$1,200 because it was withheld by one ploy or another. This year we have the exact opposite of that—certainly in the case of Incitec Pivot, which well advised in the rural press that the price would not be coming down. On that advice, some farmers went into the market and bought fertiliser at \$1,400 a tonne just a week or two before you entered the market and they dropped the price by \$600 a tonne, or whatever it was.

Senator NASH—That is right.

CHAIR—The terms of reference for this committee are to look at whether there is monopoly behaviour, whether there is a cartel at work and whether there is manipulation of market power. I have to say that since you entered the market there is evidence. I have here a comparison of prices across Australia, and the prices at the present time for DAP and MAP, which are near enough to the same, vary from about \$1,350 to \$1,400 in some parts of Australia down to \$900, depending on how close to your competition that source is.

Of course, people like Elders, who are a large reseller of fertiliser, have been caught with expensive fertiliser in their inventory and will have to discount that, I guess. We took evidence, as you would be aware, from the likes of Bob Katter which indicated to this committee that production costs from last year compared to the year before were not anywhere near the scale of the increase in prices. I gave evidence to this committee about going to a fertiliser outlook forum in Sydney where an American gentlemen used the language of ‘we got away with it’ with several hundred dollar a tonne rises that were not justified, and that was reflected in the markets et cetera.

Could you give us a brief overview of the experience that you have had in trying to get into this market? I have said publicly that competition is important in the marketplace and we encourage people who want to create competition. There may be some matters which you may wish to be heard in camera, if you think they are a bit too sensitive, but by and large the floor is yours. If you want to tell us about your banking experiences and other matters you may do so.

Mr Huxtable—I wanted to do this last year but I started a bit late and could not quite pull it off. This year I joined up with a guy by the name of John Hurley, who was selling chemicals. He cut the chemical prices by nearly half as well and I started selling chemicals for him in about May or June, when the price of Roundup was about \$11 to \$12 a litre. We cut it back to \$8.80 a litre for a generic brand, which was quite a significant drop. John had a lot of contacts overseas for the importation of that sort of stuff. A lot of companies that are into chemicals are also into fertiliser. I said to John at the time, ‘We have got to do fertiliser this year,’ because it was being absolutely abused at the time.

June or July was about the time when international fertiliser prices started to come down, despite what we have heard in the press lately from certain CEOs and chairmen of certain companies. I certainly was working on it and I knew that I had something in place. I have a fair bit of paperwork here and I will leave that with you because I do not know how much time I have got.

CHAIR—You have got about an hour.

Mr Huxtable—I am part of a buying group that I started way back in the late 1980s. But, to go back a little, I was chairman of Direct Fertilisers, which was grower owned and run. That came from two buying groups. It started in the Mallee in South Australia and also the Yorke Peninsula in South Australia. We started and ran Direct Fertilisers with a model where growers pay their money upfront, we bring in fertiliser as cheaply as we possibly can, with a price out there so that we know we have got our fertiliser covered, and then we pay back a rebate later in the year with the money above the \$5 that we aim to keep ourselves—\$5 a tonne that is, not \$5 in total!

As I said, I am part of a buying group. On 20 November our local buying group, called Borica Buying Group, had a meeting with ABB Fertiliser, Jamie Wilson. There were approximately 50 growers at that meeting and he advised our group that MAP and DAP for the coming year will be \$1,840, with the price likely to rise.

CHAIR—Could I just clarify? Was that in November 2007 or 2008?

Mr Huxtable—That was in 2008, only about three months ago. I already had this company just about ready to roll. I had not released the prices. He quoted \$1,840 per tonne, with prices likely to rise. He also said that urea would be around about \$900 a tonne. On 2 December, I think, Summit Fertilizers' CEO, in a radio interview on the *Country Hour* said there was no respite for fertilizer prices for the coming year, and that that caused a lot of reaction from the \$1,700 market. In the first week of December IPL chairman stated that around the \$1,700 for MAP is going to be the market for the near future and he said there was no likelihood of any change until February/March because of high priced product in the store.

I will leave all this stuff with you. There is a copy of IPL's Geelong base price list to their retailers—not to the farmers. On 12 December at 6 o'clock on Friday night, Direct Farm Inputs DFI, released their price of \$1,030 for a tonne of MAP, DAP with a rebate to follow, and \$590 a tonne for urea, with a rebate to follow. I have copies of various clips in relation to fertilizer prices and general comments on the fertilizer markets here. Obviously you have seen them in the press but I have a hell of a lot of them here and I will leave them behind.

Bear in mind that we always wanted to pay back a significant rebate. We were in a good procurement program that we were using. I am a farmer. There is only me, my son, my daughter-in-law and my son-in-law who are running this so I suppose it is quite unique—along with John Hurley who is doing the chemical side of it. We employ people. We employed a very smart person from Western Australia to do our procurement program. As a result we were very confident that a good rebate was going to come back.

On 19 December a price war had happened and whilst we said that we would pay back a rebate, we decided on that particular date that we would give two prices: \$1,030 with a rebate to follow or, to show our rebate in open terms, we offered MAP and DAP at \$930 a tonne, with no rebate to follow. So customers had the two options. By the way, no-one took that \$930, because we strongly advised them not to, because we were confident the rebate was going to be more than that. All of a sudden that price war found another level, and it was down to \$930. The opposition came down to there from where they were before, which was just under our \$1,030. So as soon as we dropped the price they came again. That was fine.

Late in December IPL representatives were stating—and that is in here—that international prices had dropped in the last few weeks, and new price levels now are at around \$900 a metric tonne. I guess they had to justify that they had dropped their price back. There are charts in here that will indicate that the international price started dropping way back in about June.

CHAIR—It did.

Mr Huxtable—On 10 January the price war was quite significant. We had a procurement program in place that was being extremely successful, both with product and also with currency.

When we put that price of \$1,030 out there the dollar was at about 64. Then we picked up some currency through to as high as 71½, I think. So we picked up some significant dollars there. Our rebate from \$1,030 was getting ridiculously big so we thought it was better in the growers' pockets rather than in our bank, because we did not really need it. So on 10 January we paid back an early or interim rebate of \$160 a tonne to all those that had participated in the \$1,030 price. Then that reduced our price, going forward, from \$870 with a further rebate to follow. As I quite openly admit to people today that rebate is somewhere between \$60 and \$80.

Even though I cannot tell you an exact figure—because we were working on a rebate scheme we were trying to give every dollar we possibly could back to our growers—we believe that that rebate will be approximately, as I said, \$60 to \$80. If you pick a middle figure there of \$70, it would come back to the figure of \$800. And then, of course, following our announcement that we were coming back to \$870, other fertiliser companies further reduced their prices to match our \$870 as well, so it was just an ongoing thing.

I suppose this is quite interesting. Bearing in mind that we did not need any funds to set up this project or this company—because, as I said, we were using growers' money to put into a trust account, and then the cash in that trust account was to be used to put an LC in place for the fertiliser to come from overseas—we went to the NAB because I had had experience with them in the Direct Fertiliser days and lot of the people were still there. After quite a long deliberation, I suppose, over a period of time, they decided they did not want to work with us. I have statements here on this from my accountant, Mr Des Caulfield, who was operating on my behalf in that respect. He goes to some length to explain. Perhaps I might leave that for you guys to read rather than setting that out. I guess it is a little bit controversial—the reasons why NAB decided that they did not want to deal with us. It would appear that some fertiliser companies bank pretty heavily with the NAB. I will leave that where it is and you can draw your own conclusions.

CHAIR—Could I just interrupt to say that there is a bit of sensitivity here. As you are aware, Mr Huxtable, you rang me about this.

Mr Huxtable—Yes.

CHAIR—You would be aware that I rang the correct reporting authorities because I thought what you had told me was seriously unconscionable behaviour which involved both a head office of a bank and a state division of a bank and a perceived serious conflict of interest in market exposure. I would not like to in any way interfere with an ongoing investigation, because, as you would be aware, the correct reporting authorities have been to your organisation, as I understand it, got statements et cetera.

Mr Huxtable—Yes, we have. That is fine. Another bank did the same thing—that is fine. On 9 December, a Westpac bank manager from Renmark actually contacted me to congratulate me on what I was doing for farmers in the fertiliser industry. He had some customers that were looking to extend their overdraft to buy fertiliser from us and knew the situation pretty well. In closing, he just said that, if there was anything he could do to help, he would help. I said, 'Well, there is something, actually, because right at the minute we are looking for a bank to accommodate some LCs, which is quite a simple procedure.' Within a week, that happened, so I guess it made a difference to have a win.

CHAIR—Mr Huxtable, how long was the negotiating period with the other major bank? Was it a month?

Mr Huxtable—No. Approximately three weeks for the first one and probably about two weeks for the second one.

CHAIR—My understanding, without going into the detail, is that a state division of the bank advised you that the head office of the bank had advised them not to accept the business because of certain commercial reasons.

Mr Huxtable—Yes. The first reason they gave us—

CHAIR—I do not think—

Mr Huxtable—I will not go into that, but you have got it pretty right.

CHAIR—Thanks.

Mr Huxtable—I will say this. On 16 December, a customer from Bordertown rang me to say that a particular bank had refused him—I have this in my notes; I have put the bank and whatever—finance to buy through us, and yet they would give him finance to buy through other companies. A customer at Karoonda, in my own local town, explained that another finance company—and you mentioned Elders before, so I will mention them—refused him finance to purchase fertilisers as well but would write a cheque out, would write it all out straight away, if he bought through them. There was another one on 19 January, another lad from close handy at Wynarka—the same sort of thing. So those things were concerning me. Obviously, those particular banks did not really want to talk turkey with us.

I also have other things in this presentation—a copy of a presentation from Summit Fertilizers to the AAAC conference in Western Australia. That clearly states their prices going forward, and it also talks about where the prices have come from, the amount of fertiliser in the world. It is quite an in-depth presentation. The copy is there. I have various order forms in here as well.

Senator STERLE—Through the chair, Mr Huxtable: are you tabling those examples that you have quoted?

Mr Huxtable—They are all here. I will leave them with you. I have various fertiliser orders showing price levels prior to DFI's entry into the market. I will leave them all with you. There is also a copy of DFI's—that is, our—current price lists and order forms.

Another one that disturbed me a bit was on 14 January. One of our agents on Kangaroo Island, Craig Stott—and I have his telephone number there; he is quite happy to talk to anyone—advised me that his wife, who was an agronomist with Elders, had been sacked. There was a fairly big revolt on Kangaroo Island from growers. On 21 January, Craig advised me that, following the grower revolt towards Elders regarding the stand-down of his wife, Elders offered her position back provided that her husband withdraw from all association with DFI. That concerned me a bit.

Senator NASH—Mr Huxtable, what was the reason she was given for being sacked at the time?

Mr Huxtable—Because of her husband being involved with us.

Senator NASH—They directly said that?

Mr Huxtable—Yes.

CHAIR—And they offered her job back provided she did no business as an agronomist—

Mr Huxtable—Provided that Craig—that is her husband—withdrawed from any association with us.

CHAIR—That is interesting.

Mr Huxtable—And your counterparties know about that—

Senator STERLE—And that is in writing? There is cold, hard proof of that?

Mr Huxtable—No, it is not in writing; it is just verbal, but he is quite prepared to state it. I have his telephone number; I have spoken to the guy.

Senator STERLE—The problem through this whole inquiry—and I have no doubt that there is a lot of concern out there for the growers in the price of fertilisers; that has come through loud and clear—which has been the problem for you, Chair, is that there is a lot of hearsay, a lot of whispers behind the scenes, but so far there has been no hard, cold proof that has come before this committee yet. We want it, if there is any, of any deviousness.

Mr Huxtable—Senator—

CHAIR—You are aware of the conversation I had with you when I rang you about reporting to the correct reporting authorities. There is evidence of serious, unconscionable behaviour, but it is just a matter of leaving it in camera.

Mr Huxtable—On that very point you just raised, a guy that I know well—I will talk to you guys after that; I do not know where I am supposed to draw the line here.

CHAIR—When you feel comfortable, we will take you in camera for a short period.

Mr Huxtable—Fair enough. An IPL chairman actually made that comment: ‘They haven’t got hard evidence; they’ve never got it. They’ll never get us.’ And that—

Senator STERLE—And, with the greatest respect to the members of this committee, we want that evidence.

Mr Huxtable—Yes, sure.

Senator STERLE—You can understand that, unless it is in front of us, we cannot take hearsay.

CHAIR—In any event, let us not dwell on this, because the market speaks for what has happened.

Mr Huxtable—The other thing—and you touched on it before; I put it in handwriting and forgot to include it—is the price of fertilisers where DFI, Direct Farm Inputs, are not in the market. It is still very high, particularly for single-strength super, because we are not importing single-strength super. I heard a quote the other day of \$600 for single-strength super. Some of you might or might not know that that is a ridiculous price, bearing in mind that MAP is triple strength, compared to single strength, and that is going to be about \$800. So because we are not importing that—all right, it has got some sulphur in it, and that is why, but it should not be anywhere near that number, of course.

The other interesting point is that at Newcastle, Port Kembla and Brisbane, which we are not going into—this year, at least—their prices are still sky high, and in Western Australia to a lesser extent. From Port Adelaide, we can take and we have taken orders from Western Australia, such as to the Esperance area and that sort of thing, so I guess that is having a bit of an effect on the Western Australian market.

CHAIR—Just to put it into perspective for you, these are the prices from Western Australia on 9 January: from CSBP, DAP \$1,259 and MAP \$1,269; from Summit Fertilizers the same day, \$1,298 for DAP, \$1,354 for MAP. And you are on \$800.

Mr Huxtable—We will say \$870 less the rebate, but—

Senator STERLE—That is \$870 delivered to Western Australia?

Mr Huxtable—No. That is to Port Adelaide and to Port Melbourne. That is why I believe those prices are around that \$1,200, bearing in mind that freight from Port Adelaide to Western Australia is about \$200 a tonne. They should be less than that, and that is why some people from Western Australia are actually buying from us, because they can see, as long as they trust us with the rebate, it is going to come back to \$700 or \$800—which we have no reason not to believe, of course, otherwise we would not be saying it. That is 800 bucks less a couple of hundred dollars.

Senator NASH—Mr Huxtable, in your view, where should single be at the moment?

Mr Huxtable—Where should super be?

Senator NASH—Single.

Mr Huxtable—Single super?

Senator NASH—You said it is about \$500 per tonne; roughly where should it be compared to your—

Mr Huxtable—That is a hard question to answer, and I will tell you why: there are not a lot of manufacturers of single strength super in the world. You have got New Zealand—there is Ravensdown over there—and you have got some Asian countries that produce a bit. There is a little bit made in Australia as well. In relative terms, compared to an MAP at, say, \$800, it should be no more than \$300, should it?

Senator NASH—Since you have come into the market—and we have seen the price shifts that have happened as a result—what is your view of the advice the committee has been given previously that all the pricing is done on world parity?

Mr Huxtable—I do not quite agree with it. It is not hard, and that is why I wanted to do this last year, because I knew what world parity was and I knew what the freight was. I knew what the costs were at this end. It is not very hard to work it out, really. There is a lot of cheap fertiliser in the world, but bear in mind that Australia has the highest standard in respect to the fertiliser we require—I am talking about the MAPs and DAPs.

We want it to flow through our air and sea as well. We do not want heavy metals and obviously we cannot stand contamination in relation to the AQIS side of things, so we are only bringing it in on three level 1s. Some of you might know this and some of you might not, but level 1 is where you can get AQIS clearance before you actually get to port, as long as you get three level 1s: a level 1 clerk, a level 1 port and a level 1 ship. That is the only way we are going to bring fertiliser in. It is too risky to bring it in on a level 2 basis because, if anything goes wrong, that ship can be rejected. So we will get AQIS clearance from air or port, from overseas. That is the only way we will do it. We pay a little bit more for it and we are quite happy to do that. To get a level 1 boat is little bit dearer than getting a level 3 boat—not that I want to bring it in on a level 3 boat. A level 2 boat is a fraction dearer than a level 1 boat as well. So we have got to take all the risks out of that. It has been pretty interesting.

The other thing we are pushing towards is not only fertiliser but also chemicals and diesel in the future, because there is rort there if ever there was one. Then we want to move into a co-op—grow our own and run a co-op. And then we want to take on storage and handling as well, another rort—

CHAIR—Anyhow, we are here today about fertiliser.

Mr Huxtable—Fair enough.

CHAIR—Can I just advise the committee that, at the same time that the dramatic drop in DAP and MAP was happening, urea was in the market at between \$900 and \$1,000, depending on where you were, and a person who will give evidence to this committee if required—he is away at the present time—succeeded in getting urea landed farm for under \$550 by doing it himself.

Mr Huxtable—That is a very good number. Our number is \$590 at the moment, with a small rebate. As of today, it will have to rise because, unfortunately, the international price has risen in the last few weeks. So we will have to raise it, within the next few days perhaps. The inquiry has been paramount for us, I suppose; the first vessel leaves in about—I have got to go to Florida next week.

CHAIR—You do not have to put your commercial arrangements on the public record if you do not want to.

Mr Huxtable—Fair enough. I only said that because some companies are questioning our credibility and whether it will happen. That is why I raised it. The first boat will be leaving in about 10 days time. That will be followed by another one and another one.

CHAIR—The committee hearing will now go in camera for a short period. We would like to receive the unconscionable behaviour evidence in camera.

Evidence was then taken in camera but later resumed in public—

[4.55 pm]

HELPS, Mr Andrew, Managing Director, Climate Friendly Fertiliser Pty Ltd

CHAIR—Mr Helps, now that we are taking evidence in public again, would you like to give evidence to the committee of what you see as recent global parity prices and perhaps the price in Tampa and perhaps delivered at port out of Duchess?

Mr Helps—I certainly would. Our company has recently put together a little mathematical model to track American fertiliser prices on a week-by-week basis using the fertiliser index data that comes out of the US—normally about midday on Friday, our time. So we have built this little model which looks at the Australian dollar currency rate on that date, the quoted price for DAP ex-Tampa—because Tampa is actually the only one that has a metric tonne pricing—and we pulled out all the loading charges, the demurrage and port charges, the freight rates to Newcastle, the unloading at Newcastle, the assumed spoilage rates, the contract period for an LC, the insurance rates, the bank interest rate, and we look at a theoretical cargo every week of 25,000 tonnes. We then look at loading and transport to warehouse in Australia. We come up with a cost through into store in Australia. We then look at importers' margin, wholesalers' margin, and we go through basically to the cost on-farm to a farmer who is close to the port, because there are some very long lead transport times. We are now extending the model to give pricing at about eight big rural towns in the Riverina.

Last week the total cost of a cargo of that size delivered into Newcastle would have meant that a farmer's farm-gate price would have been in the region of \$988.41 if you did that exercise last week at 0.6598. The quoted Australian dollar via the banking system is down at about the 0.63 rate at the moment. My farmer colleague at Fort Dodge, Iowa, got a price last week for me for DAP from Mosaic, delivered on-farm, of US\$272 30, which is equivalent to A\$412.70.

We have recently done a greenhouse gas study for our development up at Leeton in New South Wales and we have back-cast all the greenhouse gas involved in making product at Duchess, railing it through to Townsville and then shipping it through to an offloading situation at Portland in Victoria. We managed to get some data on the gas prices and some of the contractual arrangements with rock and acid up there. It is hard to fully understand the rail costs for that product through to Townsville, but you wind up with a probable cost into Townsville of \$230 at the low end, and at the high end it could be as high as \$280, because there are some charges there that are not really visible. That, funnily enough, equates to the cost of some of the very low-cost producers in the USA for similar product. If you read Incitec Pivot's investor briefings that they give overseas a couple of times a year, they very clearly claim they are right at the lowest cost of making this product of anybody in the world.

I think the work that we have done within our greenhouse gas audit is pretty accurate. We accept, however, that there are significant costs in sea freight out of Townsville to distribute to the rest of Australia. It is very hard to actually pin down the long-term contract costs.

CHAIR—What do you estimate it to be at port? 280?

Mr Helps—If you take the worst case scenario, it is 280.

CHAIR—So we will say 300.

Mr Helps—Yes, it could be 300 at port in Townsville.

CHAIR—Bob Katter, the local member up there, came and gave us evidence of the stability of the input costs in the last 12 months to their plant. What did you say the landed farmer is paying?

Mr Helps—The American farmer at the moment is paying the equivalent off \$412.70 landed, on farm.

CHAIR—So if you added \$120 to that price, it would be bloody near the same price, wouldn't it?

Mr Helps—Yes.

CHAIR—For instance, with oil, whether it comes out of a well in Indonesia or it comes out of a well in Saudi Arabia or somewhere, there is a parity price. So it would be fair to say that the global parity price for landed farmers might be 400 and something, but according to the evidence from previous witnesses, Australian farmers have all the add-on costs. It really is not a parity price at all.

Mr Helps—If you talk to some of the English farmers who are now taking over large-scale farming operations in the Belarus—and I have spoken to a couple of those lately via the soil society—they are actually buying DAP out of Yousni in euro terms at the equivalent of A\$300. The Yousni stuff is not a really good product. None of that Russian stuff is, but there is rapid development going on with those plants in that region.

CHAIR—From what we received earlier last year, one of the reasons that the market has changed is that there was a move by, shall I say, the global cartel or the big players to reduce production and the Russians said, 'No, we will reduce the price and can you continue production?'

Mr Helps—I think the committee needs to bear in mind that in the Chinese market at the moment 20 million workers have been laid off recently and the bulk of those have gone back to their native villages. My contacts in Beijing are telling me that that is going to drive a demand internally for an extra 6 million tonne of product in China in the next month or so as they get into their summer sowing season. So they are flagging that exports will probably be banned very shortly, because all those unemployed factory workers have gone back to their villages. They are young, fit and healthy. They have a bit of money. The only way they can make money now is to put land back into production, so there are going to be some changes there that nobody is factoring into the marketplace at the moment.

My view at the moment is that this winter cropping season, March-April, we are probably going to be paying 1,400 or 1,500 bucks a tonne minimum for DAP. I really cannot see it coming off that much in the Australian theatre at the moment. An Australian farmer should be paying for

DAP what an American farmer pays for it. If you went to a farm meeting in Fort Dodge, Iowa and you said, 'The DAP that is made 50 kilometres away is an internationally traded commodity, and you have to buy it pretending that you are somewhere else,' you would probably be strung up from the big oak tree outside the building.

CHAIR—You could probably make the same argument about Duchess, couldn't you?

Mr Helps—Of course.

CHAIR—So anyone who can buy it in the nine hundreds would be doing all right?

Mr Helps—I think that would be sterling.

CHAIR—We are just giving it a bit of free advertising.

Mr Helps—I must predicate that. One operator has control of about three million tonnes. It is very easy for them to loss-lead—

CHAIR—We received the evidence that the company that has got 100 per cent of Australian manufacture and 70, 71 or 72 per cent of wholesale eastern Australian sales does not consider that they have market power that could be described as a monopoly. So it was an extraordinary sort of a view. But I suppose that if you bury your head far enough in a bag you could believe your own bullshit.

Mr Helps—But spot cargoes are not going to fix the problem because you bring in 25,000 or 50,000 and they will match the price while you have got it in store until it is gone and then—

CHAIR—But obviously that is the message for the Australian farmer: that we need competition and to have competition you have got to sustain the person who is breaking the mould.

Mr Helps—Yes, without doubt. The interesting conundrum will be whether the low share price of IPL drives out a bid from somebody else now. I do not want to speculate on that here.

CHAIR—Anyway, we are not looking into market considerations here. Could I ask you to reflect on any comment you might like to make about single super. Have you got any comments on that? Obviously single super is very—

Mr Helps—It is an inordinately profitable product. People buy rock out of Morocco against UN sanctions and they bring it in here and they make a product that some farmers are wedded to. I would think the single super market in Australia is going to die as soon as granulated lime and granulated gypsum are available to the farmers.

CHAIR—So you think it is a bit old fashioned in the long term?

Mr Helps—The average farmer in Australia has probably got 30 to 50 years of phosphorus locked up in their soil, which they cannot use.

CHAIR—From chemical farming, yes.

Mr Helps—It is like having an account at the bank where you put money in but you are never allowed to take it out. We are aiming in the next 12 months to build a plant to make granulated lime and gypsum. As soon as that product comes on the market and they can actually put it in the soil, I would predict that the single super market will probably drop off by 50 or 60 per cent. I mean why would you buy single super at the moment when you can buy MAP or DAP for not much more? But there is no competition in that marketplace.

CHAIR—We have here a written document from the Republic of Nauru—and a minister of that government—that sets out the distress that the Nauru government has endured. It is an internal document so I do not propose to publish it. I have to say that the good people of Nauru have good reason to be very distressed about the deal they got for their phosphate rock in recent times. This official communique from a government minister there is quite disturbing. I might get some advice on how to deal with this correspondence because it is obviously marked ‘confidential’.

Senator FISHER—Mr Helps, the chair, Senator Heffernan, asked you about reflections on the price of single super. You, I guess, gave a rhetorical answer asking why someone would buy single when faced with the prices for the others. Are people buying single to your knowledge at the moment?

Mr Helps—I talk to a lot of distributors around the place who are hounding me for supply. Last season there were people buying single super because they could not afford anything else.

Senator FISHER—My next question is: if they are, why do you think they are right now? So I am putting your question back to you.

Mr Helps—People still put it on pasture. There are reasons why you would use it, especially if you are growing, as part of a rotation, things like kangaroo grass. But a lot of the older farmers are used to using single super. I grew up on a farm and single super was all we had. A lot of the guys have not changed. There is also a restriction on data out there. A lot of the farmers do not understand that they have massive amounts of phosphorus that they cannot access locked up in their soil. I will lodge with the committee an article by the Tennessee Valley Authority, who developed DAP and MAP back in the 50s, 60s and 70s and who are saying that that technology is out of date and has to be replaced. It is very interesting that the people who designed the third generation fertilisers are now saying that we have got to replace it because it is no good. And America is rapidly heading towards chemical fertiliser restrictions in the Mississippi Valley.

I think people are using single super because it is seen to be cheap at the moment. Look, this year is going to be the last roll of the dice for a lot of Australian farmers. Some of the financial problems out there are horrendous. Then you have people like the Victorian government rapidly moving out of rural research and development.

Senator FISHER—So it seen to be cheap—well, cheaper—on a per tonne basis but not in terms of bang for the buck?

Mr Helps—Single super should be selling in Australia for about \$240 a tonne, in my opinion. Some of the prices that are being asked for it at the moment—

CHAIR—\$550.

Mr Helps—Yes. Out our way you would pay close on \$700 for it.

CHAIR—I have to say, in declaring an interest, as I always do—

Senator FISHER—As should have I, yet again I suppose.

CHAIR—No, it is a continuing declaration.

Senator FISHER—I am very pleased and reassured about that!

CHAIR—The year before, so for last year's cropping, I paid \$305 for single and \$740 for MAP. That was in the extraordinary withholding period.

Mr Helps—You did very well, Senator. I would not have let the dealer out of my sight at that.

CHAIR—Anyway, that is what it cost me. That sort of made sense at the time.

Senator FISHER—I have one other question. Mr Helps, you made a reflection that, given the current share price of Incitec, it will be interesting to see whether other things happen. Can you expand on that comment, that almost throwaway line?

Mr Helps—It is not pretty there. They blew, what, \$1.3 billion in shareholder value yesterday? It is hard to see one of the overseas majors not jumping in and exploiting that weakness.

Senator FISHER—Would that assist competition, in your view?

Mr Helps—It might make it worse—who knows?

CHAIR—I think it would be fair to say that no-one knows where we are going, and I am sure we have not been to where it is that we are going.

Senator FISHER—No, but, Chair, I am asking the witness for his learned opinion.

CHAIR—I don't think the shit has hit the fan yet!

Mr Helps—It is something that fascinates me every day.

Senator FISHER—It is very fertile.

Mr Helps—The flipside of it is that they have to make profits, and big profits, to pay off a whole lot of debt. There will be a write-down of some sort shortly; there has to be.

CHAIR—It was a very expensive bucket of custard, as it turns out.

Mr Helps—I think Australian farmers need to be very careful that they are not cross-subsidising the mining industry. But that is just my opinion. People were taken in by the words of BHP and Rio last year about the China boom running for 30 years, and—

Senator FISHER—All-right. Thanks, Mr Helps.

CHAIR—Thank you very much, Mr Helps.

[5.17 pm]

MASLIN, Mr Gregory Craig, Manager, Airpasture

Evidence was taken via teleconference—

CHAIR—I welcome Greg Maslin. Do you have any comments to make on the capacity in which you appear?

Mr Maslin—Thank you. I am a pilot and a manager of an aerial top-dressing company at Scone in the Hunter Valley. I am appearing in the capacity of a spokesman for that company.

CHAIR—I invite you to make a brief opening statement, if you would like to, and then we will go on to questions.

Mr Maslin—I sent you a letter yesterday—I do not know whether or not you have a copy of that in front of you?

Senator NASH—We do indeed.

Mr Maslin—That basically says it all. I fly the plane, organise the work and basically run the whole show. Our work takes us anywhere within a hundred-mile radius of Scone, spreading fertiliser in hilly and mountainous terrain where ground spreaders cannot operate because of the terrain. Our company is based in that area and the work has been quite reasonable because we have a niche, in that they cannot climb up the side of a hill and we can. So our business has not been decimated like companies in more rolling or less hilly country. We still had a reasonable amount of work until July-August last year. Since then, things have fallen in rather a big heap for us.

CHAIR—Thanks for that. Sulphur is obviously is an important part of single super, which is necessary for the long-term wellbeing of pasture, and is not a significant additive to the more high-analysis chemical fertilisers. You make the observation that sulphur has dropped in value from US\$800 a tonne in June 2008 to US\$50 a tonne in December. Can you confirm those figures?

Mr Maslin—Yes, those are the figures I got off the website FertilizerWorks. That was up until 31 December. It published figures from ICIS, a reporting company out of the UK that reports on prices with regard to fertiliser inputs.

CHAIR—So it is certainly less than 10 per cent of its original price.

Mr Maslin—Yes, it is well less than 10 per cent. The point I was trying to make was that in the article in *The Land* the Fertiliser Services Association fellow claimed that it seemed the super had not dropped at all and that was due to rock phosphate being static. The phosphate is only nine per cent of single super, whereas phosphate in MAP is about 22 per cent and in DAP it is about 19 per cent, I think. That being the case, why have DAP and MAP dropped when they

have a much higher percentage of phosphate in them than single super has. SF45, which is 45 per cent sulfur, is still at something like \$600 or \$700 a tonne. That has not moved at all. Obviously sulfur, which is a huge input into SF45, has fallen through the floor, but the fertiliser is staying static.

CHAIR—By the way, it is not pertinent to single super but would you say that nitrogen, which is 10 per cent of MAP, is at about a quarter of its original peak price?

Mr Maslin—Yes. That is on the fertiliser works website where I got the rest of that information from.

CHAIR—We are here to look at whether there is monopoly behaviour in the market and whether there is a global cartel. It is a given fact from evidence received earlier that has not been disputed that 85 per cent of the world's rock phosphate is tied up in five entities around the planet. There are some exciting new potential developments in Australia which, if we go about our carbon emissions policy the wrong way, will implode. They will not happen. It would be fair to say that there is no real outside competition in the single super market, which is probably reflected in the fact that it has not come back. The previous evidence we received from Mr Helps is that he considers the price ought to be roughly around \$250 a tonne. I bought super last year for \$300 and it is now about \$550.

Senator JOYCE—I am aware of the work you do. In fact, my family has a place at Danglemah. We have managed to park two aerial super phosphate planes onto our place from time to time—unfortunately, not on the airstrip! What is the current price that you put out for single super spread on to pasture?

Mr Maslin—For the aeroplane or the total cost of what is spread on the ground?

Senator JOYCE—The total cost on the ground.

Mr Maslin—It is about \$600 a tonne on the ground now.

Senator JOYCE—What is the attitude of your suppliers to super? Is there any sense that conditions have changed, that prices are going down, or are they adamantly saying, 'This is life from now on and this is what you are going to pay'?

Mr Maslin—I have not spoken to our suppliers directly; I have only spoken to farmers and supplying agents, but the information that I get second hand from the fertiliser companies is, 'This is the price. If you don't like it, don't buy it.' Quite amazingly, there is a rumour going around that single super is going to drop \$40 a tonne tomorrow, so perhaps the lack of volume being sold has finally got through to them.

Senator JOYCE—As you said, this is what happens without competition. If the price goes too high they do not buy it. It is a case of buying it off them or not buying at all. It is not a case of buying it off them or buying it off someone else. Competition is just not prevalent in the market.

Mr Maslin—It seems that since the Chinese government put that tariff last year, which I believe was in the order of 100 per cent, there has been only one choice of where to buy that product from. The price was rising before April, but that is when it seemed to me on the sidelines that it really took off. Obviously, if you have not got any competition you cannot exactly charge what you like but the world is sort of your oyster, isn't it? You have not got any real competition. From where I am sitting, unless a supplier like the Chinese can produce fertiliser at a markedly reduced price, we are going to be stuck with it where we are now. Our future is certainly very precarious at the moment.

Senator JOYCE—Do you find people are starting to knock superphosphate out of their budgets?

Mr Maslin—Yes. The first thing people want to do when they have money is spread fertiliser. That is what they say. It is also the easiest thing to leave out in that your production is not going to fall off a cliff in one year if you do not put the nutrition in. However, it does decline slightly year by year. From speaking to the customers, if you get into the regime of putting fertiliser on, you get the increased production and then the increased income, so you can afford to keep doing it. Once you get out of the loop of putting it on regularly, you then do not have the production so you then do not have the income to pay for the product. Obviously, that is based on the price being between \$250 and \$300 a tonne, not where it is now. People who spread fertiliser say, 'I don't know how you stay in business without it' and people who do not do it say, 'I don't know how you can afford to do it.' That is my observation: once you are in the loop of putting it on regularly, you get the nutrition and the income to pay for it. If you do not have the money to put it on, you get a slow decline as the nutrition is marched off the property in the stock.

Senator NASH—I was going to ask you about that. I think that productivity of the land has flow-on effects and spreads benefits right through local communities. Are you finding that your clients are pulling out altogether or are they cutting back their rates or is it a mix of both?

Mr Maslin—They have put lower rates on at times in previous years, but generally the customers that I serve have been putting on similar amounts. Instead of putting on the same amount every two years, they might put it on every three years. I guess in that respect they are putting less on. Since August or September they have been saying, 'We're not going to pay for it at today's prices, and that's that.'

Senator NASH—You have done a really good job with the tonnages. This might be a difficult question but, compared to four or five years ago, what has been the percentage drop in your client numbers as opposed to your tonnages?

Mr Maslin—The customer numbers are basically the same. They have not changed much at all. Where we spread fertiliser down close to the coast around Dungog or closer to Newcastle, where they have cut blocks up and city hobby farmer type people have bought the properties, that is where there has been a decline in numbers. Further west around Scone and up the top of the Hunter River area, where the bulk of our work is, those fellows have not changed at all, basically.

Senator NASH—I know this would only be anecdotal, but what are your clients saying to you about the increase in fertiliser pricing? We have seen that go up and down over the last 18 months.

Mr Maslin—Like all cockies, they whinge and they say it is too dear and they are not going to pay for it.

Senator NASH—That is fairly universal!

Mr Maslin—That is it. If you wanted a new car, would you pay double what you would have paid 12 months ago?

Senator NASH—No. I am a farmer, and we did not want to pay double for our fertiliser either.

Mr Maslin—That is the reality of it. In agriculture, you cannot double the price of something in 12 months and still expect people to buy it. Obviously, their returns have not doubled. In fact, the stock price is going backwards at the moment. I would not expect people to spend double the input costs for the percentage of their profit that it chews up, not if it doubled in only 12 months. Maybe you could wear that if it doubled over five or six years. To double it in 12 months is a pretty rude shock. I do not know that the doubling in 12 months is totally Incitec's fault considering the world prices and the boom and the bust we are seeing now, but the price at the moment certainly seems out of kilter with what the input costs appear to be based on anecdotal evidence around the world.

Senator JOYCE—One bit of important information we can get from you is the consequence to Australian agricultural capacity of the loss of capacity to superphosphate country. I remember in the New England country there was a cut of eight pounds of wool, which you would not bother growing now, until you supered the country, in which case they were able to cut 12, 13 or 14 pounds, and people had a rough chance of making a go of it. I imagine that a lot of that country—what is the name of the place at the top of the gully? Timor? Tibar?

Mr Maslin—Timor is at the top of the Isis River, yes.

Senator JOYCE—If that country did not get superphosphate, some of it, within the fullness of time, would not completely lose productive capacity but would have a substantial in its productive capacity—would that be a fair statement?

Mr Maslin—Yes, definitely. You would have to speak to an agronomist who knows those numbers or a farmer who could tell you what those numbers are. I cannot tell you what the reduction is per year or over the long term, but there is certainly a substantial reduction in production when you take the fertiliser out of the equation.

Senator JOYCE—So the control that a certain organisation can exert on the marketplace goes beyond just the fact that they get an unreasonable premium on their product; it actually goes to reducing the overall agricultural capacity and productivity of your area. If it is the case in your area, it is the case right across the nation that this monopoly-like position is having a detrimental effect on the productive capacity of agricultural.

Mr Maslin—Yes, that could be said.

Senator JOYCE—I think that is the argument that the Australian people have to understand—it is not just a question of supernormal profit for an organisation; it is the fact that their supernormal profit is paid for by the fact that we as a nation lose productive capacity.

Mr Maslin—Yes, we are not making any more high-rainfall, high-production country. What we have is what we have. The only way to increase the production off it is either by improving the pasture and/or using fertiliser to increase the nutrition of it. Back in about 2005 or 2006, when things were really bad here, there was a chap out Rouchel way, which is a valley not far from Scone, who did not super and his stock were dying in the paddock. The neighbour, who had just as much feed—which was nothing—was trucking off stock that were fat and making good money at the market. The only difference was that one fellow applied fertiliser every year for a long time and the other fellow applied nothing. It was a common comment—though perhaps not to that extreme—that in 2005-06, when things were really bad, chaps who had put fertiliser on got quite good nutrition in what little feed was there. The chaps who did not put fertiliser on were the fellows who were in a lot more strife and their stock were not doing well at all.

Senator JOYCE—It is always said that if you want to get rid of your weeds super the country and the cattle will eat them.

Senator NASH—Mr Maslin, in your submission—and thanks for your submission—you talk about the drop in prices as the word got around that another importer was going to import. The committee has been given advice that the prices we see here in Australia are a direct result of world parity, yet we see a situation like this where there was such a dramatic drop in price. What is your view of the committee being told that it is all a result of world parity pricing?

Mr Maslin—It is probably a bit out of my league to comment on that, in my capacity. I do not know what the real input costs are, the dollar exchange rate and all that; I just—

Senator NASH—I suppose what I was getting at is that one minute we have another company entering the market and the price dramatically dropping, yet companies are saying to us, ‘There is nothing we can do about the price because it is linked to the world.’ I was trying to pick up on the contrast.

Mr Maslin—That is what I do not understand. Why can one fertiliser company in Australia say, ‘We can’t possibly drop the price,’ and then three weeks later they drop the price by the amount that they did and it magically is slightly less than what the importing company was going to bring fertiliser in at?

Senator NASH—Yes, it is all a bit coincidental I think.

Mr Maslin—That was the point I was trying to make. Either you can drop the price or you cannot, and if you cannot drop the price you cannot drop the price, and if you can you can.

Senator NASH—And you should be doing it and farmers would want to see that. Thank you.

CHAIR—I just want to cheer you up, Mr Maslin. I have received evidence which I will put on the public record, and I might read some of it into the record, to give you an idea of how distorted, playful and full of likeable rogues the market is. I have a shipping record of all the rock phosphate that has come out of Nauru from 24 November 2005 to mid-year last year. We received evidence from Incitec Pivot that when they were paying \$40 a tonne, and the global price was \$200 or whatever, it was because they had generously loaned them \$5 million and it was coming back to them by way of cheap rock phosphate. There was a whole lot of internal disruption and all sorts of allegations and explanations, but it seems to me from this consignee document I have here that Samsung, Getax and IPL have been the main purchasers of fertiliser from Nauru in recent times.

To cheer up, can I tell you that this time last year, on 24 February 2008, a ship called the *Great Summit* took 30,500 tonnes for IPL and they paid \$40 a tonne. A few days later a ship called *Bonnie M* delivered Getax 21,600 tonnes at \$45 a tonne. So the furphy that they were getting it cheaper because they provided some start-up finance seems to fall in a serious hole. And so it goes on—in July last year Samsung did all right: they got it at \$80 a tonne. I presume by then the global market was probably well over \$200 a tonne. They finished up on \$45 a tonne for a shipment on 15 July.

I have a missive of a government official in Nauru which just shows the tomfoolery in the market. It does not have any identifiers on it now because they have been removed. It says:

How much did we make off the spot sale last week to Getax (US\$70pmt)?

I have been following the market price in recent weeks, and am astounded by the rapid rises in prices of raw phosphate rock from around the world. The World Bank's official list of commodity prices shows the price of Moroccan rock reaching US\$190pmt in January 08. World-wide, the average price of phosphate rock has increased from US\$42pmt in Jan 2006 to near US\$200 last month. We need to take advantage of this trend in prices.

Of course, we need to keep in mind that phosphate rock is different in each country—

and I guess there are some differences. They have a cadmium issue, I think, in Nauru—

(different qualities/different aggregate sizes/clean/unclean etc etc), and freight costs affect pricing, but I think it is fair to say that we can capitalise on the world trend in commodity prices.

The main problem we have is convincing our contract buyers.

How funny! It gives a name, which I will not mention—

... and I negotiated an agreement with Getax last month which would allow price reviews based on a **cost+profit** formula. How are we doing with the cost calculations? Last year I had prepared some basic fixed and variable cost estimates - which we later used to prepare the 3-year financial model. I propose we develop that spreadsheet further to include additional costs such as accumulated recurrent debts ... By including such debts (which are quite substantial) - payable over a three-year time frame or more, and by building in a profit margin of 12% or more—

which I would have thought was pretty reasonable in a rogues' market—

we should be able to legitimately increase our rock prices. I think we should be aiming for a minimum price in excess of US\$70 or more from next month onwards. I'm not sure if we can also build into our pricing policy a mechanism to link our price to the world price (Morrocan rock is used by the WB as the indicator). Lets think about that some more.

I also want us to think about possibly selling our rock in AUD\$. We have lost around 40% revenue since 2001 due to the devaluation of the US\$. I sought advice on this matter last year from—

I will not mention the name of the company—

... and they advised to stick with the US\$ as it was likely to strengthen over time. That hasn't happened yet, and now the AUD\$ is almost on par with the US\$.

Well, of course, it has fallen since. It would be fair to say that the gist of that is that where there is a monopoly in the market they certainly can screw the market. While the world parity was well over \$200 they were still getting fertiliser at \$40 a tonne for whatever reason. That is obviously written evidence of it. The shipping schedule is there which includes probably 30 or 40 shiploads.

We would be very interested to see some competition in the single super market. That just displays the fact that, where there is no competition, if you have market power and monopoly share you will screw the market and the poor old farmers will get the costs passed back to them and the profits will be passed away from them. As far as I am concerned, we are here to do business on behalf of farmers who get out of bed in the morning to supply what most people take for granted in the supermarkets—that is, food that is clean, green and free from disease. They take it for granted and they cannot continue to do that. Thanks very much for your evidence today. I have only one other question: do you fly under the powerlines or over them?

Mr Maslin—It depends how heavy the aeroplane is. If the runway is too short and the aeroplane is too heavy, you have to go under them.

CHAIR—Thank you very much.

Committee adjourned at 5.41 pm