



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

SELECT COMMITTEE ON AGRICULTURAL AND RELATED  
INDUSTRIES

**Reference: Pricing and supply arrangements in chemical and fertiliser markets**

WEDNESDAY, 23 JULY 2008

MELBOURNE

BY AUTHORITY OF THE SENATE



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

**Wednesday, 23 July 2008**

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

**Senators in attendance:** Senators Heffernan, Fisher, 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 9.06 am**

**CHAIR (Senator Heffernan)**—I declare open this public hearing of the Senate Select Committee on Agricultural and Related Industries in this gloomy room. The committee is hearing evidence on the committee's inquiry into the pricing and supply arrangements in the Australian and global fertiliser market. I welcome all witnesses here today. This is a public hearing and a *Hansard* transcript of the proceedings is being made. 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 be given in public but, under the Senate's resolutions, witnesses have the right to be heard in private sessions. It is important that witnesses give the committee notice if they intend to give evidence in camera. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether or not 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 the answer be given in camera. Such a request may, of course, be also made at any other time. On behalf of the committee, I would like to thank all those who have made submissions and sent representatives here today for their cooperation in this inquiry.

[9.07 am]

**CERAVOLO, Mr Francesco, Project Engineer, Latrobe Urea Project, Australian Energy Company Ltd**

**DUCKETT, Mr Paul Frederick, General Manager Operational Development, Latrobe Urea Project, Australian Energy Company Ltd**

**CHAIR**—I welcome witnesses from the Australian Energy Company. If you would like to make an opening statement, you may. The shorter it is the more questions we have to ask you, so you figure that out for yourself.

**Mr Duckett**—Thank you. AEC is a company which was formed three years ago to exploit the resources in the Latrobe Valley with a view to gasification and subsequent production of urea. It is not something new; the technology has existed and been utilised in China for sometime and it is now being looked at increasingly around the world. In fact, the Australian Energy Company has formed a sister company in the USA called the Australian American Energy Company, which is looking at a similar project in the Montana region. Basically, the project has moved along very quickly in the last two years. We have secured coal resources through a joint venture with Loy Yang Power. They are now shareholders with us. We have secured licensing agreements with Siemens for the gasification process, and those gasification items are currently the subject of a major test. We have just shipped 1,500 tonnes of coal to Germany for drying and subsequent gasification tests to ensure the technology copes with our quality. We are fairly bullish about the outcome of that because the quality of our coal here is on a par with some of the existing plants that are being run in China. I will keep it as brief as that and leave it to you.

**CHAIR**—God bless you.

**Senator NASH**—What do you see as the scenario for Australia if it remains reliant on overseas urea production?

**Mr Duckett**—With a crystal ball we would all be very wealthy, Senator! I will give my own views on this; we have discussed this in the company for some time. What we saw last year was that China, with a total demand of about 55 million tonnes of urea, actually produced between 47 million and 48 million tonnes. That left a significant shortfall. We saw a similar figure in India, where there was a shortfall of something like 4 million to 5 million tonnes. We have just had an approach from the Indians to try and secure a million tonnes of urea from the commencement of our production. They are very concerned about the supply of this product.

As I have said in our submission, most of the urea in the world is produced from natural gas, and the price of natural gas is going north. We were at the World Fertiliser Conference and talked to some of the Europeans back in May this year. Europe is extremely worried because their natural gas is predominantly contingent upon a pipeline out of Russia. Strategically, that is a real issue for them, so they are looking at what their options are. Although it is not publicly discussed, an alternative pipeline out of the Middle East is very much on their radar. Were that to occur, the Middle East gas producers would be getting \$5 to \$7 a gigajoule, whereas for urea

production they are getting about a dollar. So the very forces of the market are going to make increasing urea production versus supplying into Europe, if that opportunity comes about, increasingly more attractive.

Also you have a lot of capacity, particularly in Eastern Europe, where the plant is now becoming fairly old. Even though their nameplate capacity is, for all intents and purposes, let us say 300,000 or 400,000 tonnes of urea a year, they are only actually achieving about 70 to 75 per cent. Those figures are based on the international fertiliser federation's own figures. In terms of a world scenario, we face increasingly developing nations with subsequent reducing agricultural lands, so they have got to increase yield. There is going to be an increased demand and requirement for fertiliser from these countries as the Chinese population move from more subsistence type crops to crops similar to what we require.

On the other hand, Australia is facing similar situations. We have got to increase our yields, and having a source of fertiliser is critical to that. Our argument would be that, from a strategic point of view, Australia faces an uncertain future unless we develop a source of urea fertiliser internally. We are fortunate. Incitec Pivot have a MAP and DAP plant in Queensland which goes very close to securing a great proportion of our requirements for phosphate fertilisers, but it is in the area of urea, the nitrogen fertilisers, that we are at a severe disadvantage compared to the import market.

**Senator NASH**—I should probably declare my interests as a farmer, too. You mention in your submission that you are going to produce and capture about a million tonnes of CO<sub>2</sub>.

**Mr Duckett**—We will actually produce 1.2 or 1.3 million tonnes of urea but we will also obviously in our process capture a million tonnes of carbon dioxide.

**Senator NASH**—On that, what carbon capture processes are you going to use or do you envisage using?

**Mr Duckett**—We envisage using geosequestration. We have had lengthy talks with and made lengthy submissions to both the state and federal governments to try and ensure that that technology is brought on quicker rather than slower. We see some problems with the current proposals that are in the government's green paper in asking the market to be the determiner of whether CCS is developed, because there are vested interests in the fuel and oil industry. We would say it would not be in their interest to see carbon capture and sequestration for coal come on quickly, because the longer it is delayed the higher the gas price is going to be. They do not particularly want their drained oilfields to be the subject of geosequestration of carbon dioxide until they have fully explored or fully exhausted the potential of all their oilfields. So there will be a bit of a conflict there.

We see the market as a dubious means of ensuring that that technology and that industry is in place in time for us. There will be a gap. We will be geosequestration-ready by the time of the actual operation of the plant. We will have the back end of the plant ready to convert the carbon gases into a liquid form ready for injection. Unfortunately we do not think the present proposals are going to meet our time line, so there will be a period of time when we will have to emit.

**Senator NASH**—And that is why you have asked that there not be a penalty imposed if those processes are not in time to meet your time line?

**Mr Duckett**—That is right. We will compete with industries in China and the Middle East, where there are no constraints on emitting carbon dioxide, so we are very much at risk.

**Senator NASH**—Three years down the track, you are obviously well advanced. One of the things that concerns me in your submission is that this is predicated on the infrastructure being improved. I assume you are talking about government intervention to improve the infrastructure. Given the track record of some governments, how certain are you that they will come to the party and how will that affect you if they do not? We have been trying for a very long time to get state governments to improve road and rail infrastructure and they are not quick to do it. How sure are you and what is it going to mean if they simply do not do it?

**Mr Duckett**—The rail line that runs down into the Latrobe Valley is broad gauge and it gives access to Geelong. Unfortunately it goes right through the Melbourne transport network, which will make the timing and scheduling of trains fairly tight. From our discussions with the government there is enough capacity for production from our existing plant, which is about one million tonnes, to come down that line and move to the Port of Geelong. The difficulty is: how is it then transported into the farm community? Unless there were to be significant infrastructure changes, we would think it would go to the market by the traditional means. It would probably go into major storage facilities in Geelong—the fertiliser wholesalers—and be distributed, as it is today, mainly by road. Obviously with the existing infrastructure in place a significant proportion will go by truck. We think there would be somewhere in the order of 200,000 tonnes—although one of our studies has estimates of two 300,000 tonnes—of which 100,000 tonnes would come out of the valley and 100,000 would go through the Gippsland region by truck. We will build our plant with the capacity to service both rail and truck transport.

Ideally, as we say in our report, we would like to see standard gauge access from our facility because we believe that would enable a major radical rethink of transport logistics for the fertiliser industry. At the moment, you bring a ship into the Port of Geelong—or Newcastle or Brisbane. You unload into storage on very expensive real estate. We have had discussions with inland storage people—and some of the figures are in the report. The difference is huge. You can build a storage facility in Tocumwal, on the standard gauge line, or at Parkes, and suddenly the trucking network changes considerably. Geelong and other ports in Victoria can change and it really becomes dispatch onto standard gauge rail and you start to move fertiliser directly into market areas where it is required. It is much along the lines of what exists in the United States.

**CHAIR**—Are you going to be a supplier or will you feed into the existing monopoly?

**Mr Duckett**—We will probably feed into the existing monopoly initially, mainly because of the bankability requirements.

**CHAIR**—Are you saying the infrastructure at the ports is monopolistic?

**Mr Duckett**—I do not think it is monopolistic. There are about four or five importers of fertiliser at the moment, so you could not say that.

**CHAIR**—Would you say it is difficult to get a leg in?

**Mr Duckett**—No, I would not. One of the features of the industry is that, as long as you have the storage capacity at the ports, anyone can order a shipload of urea or phosphate fertiliser and bring it in tomorrow. In fact, we have seen a number of start-up organisations in recent years which have done just that.

**CHAIR**—Your costs are \$14.95. Is that the cost of production without the infrastructure cost?

**Mr Duckett**—No, that is the cost of the gases in order to start producing the urea.

**CHAIR**—What would you estimate your costs to be before you take a profit?

**Mr Duckett**—It is changing every day. The cost of steel is going up every day, so it is an uncertain figure. At the moment our cost of production is somewhere in the order of 70 or 80 per cent of the world parity price.

**CHAIR**—And what do you think that is?

**Mr Duckett**—It is about \$400 a tonne, but we will not be held to that at the moment because everything is variable.

**Senator NASH**—That is the cost of production. Do you have a plan for what you are going to whack on top of that?

**Mr Duckett**—It would be remiss of me not to say that we will be charging world parity price. The price of fertiliser goes up and down. It was only a few years ago that urea was US\$120 a tonne but it is now sitting at around US\$700 a tonne. We will obviously be looking at world parity pricing from the point of view of shareholder return. This is a \$2 billion project so it has to be attractive to them. However, the benefits we think we bring include, firstly, the strategic supply of fertiliser. Australian farmers in the south-east will not be wondering whether they are going to be able to get urea for their crops.

**Senator NASH**—Am I right in thinking you are going to export about 30 or 40 per cent of it?

**Mr Duckett**—Yes, that is potentially the case.

**Senator NASH**—Your intended production is roughly equal to the amount of urea usage in Australia anyway.

**Mr Duckett**—Yes.

**Senator NASH**—So if you export 40 per cent you are really only going to be providing half of the market's requirements.

**Mr Duckett**—We will be providing about 60 per cent of the market's requirements. The reason we will export is really a matter of storage. The cost of keeping stores in Australia to meet

the fluctuating market times will make it more realistic to export—and that export market will probably be in New Zealand.

**Senator NASH**—You are saying that one of the benefits will be the extra production for Australian farmers. But if you are only going to be providing 60 per cent of the total requirements, I guess it is not that great an argument from the farmer's perspective.

**Mr Duckett**—I think it is. That 60 per cent will cover basically the south-eastern part of Australia. So New South Wales, Victoria and South Australia will be looked after by our production. Queensland's fertiliser demand is met by a plant in Brisbane.

**Senator NASH**—Why do you think they would choose your product rather than an imported product if the price is the same?

**Mr Duckett**—The parity price may be the same but then there is freight. The added cost of freight from the Middle East at the moment is in excess of US\$100 per tonne.

**Senator NASH**—There are other industries where that seems to be factored in to give a flat rate back.

**CHAIR**—So you will be looking at something like \$400 on top?

**Mr Duckett**—If we were able to produce at \$400 and the world parity price was \$700 then that would be the price. But US\$700 is not the current price to the farmer in Australia, I can assure you.

**CHAIR**—What do you think it is?

**Mr Duckett**—It is about \$840 a tonne. I bought some for my farm last week.

**CHAIR**—Is that US or Australian?

**Mr Duckett**—It is Australian. There is very little difference. The Australian dollar is worth US97c.

**CHAIR**—But you are admitting that you are going to be part of a world cartel.

**Mr Duckett**—No, we will be part of a—

**CHAIR**—That is in polite language.

**Mr Duckett**—In terms of parity pricing, yes.

**CHAIR**—It will give you a 50 per cent return on your profit if everything stays even.

**Mr Duckett**—If everything stays even. At this stage it is about a 40 per cent return.

**CHAIR**—You do not think the average Australian cocky thinks that is greedy?

**Mr Duckett**—They may well do—

**CHAIR**—But you don't give a rat's arse?

**Mr Duckett**—As a business we have to raise the money in the first place. We are dealing with a very competitive environment for capital, so you have to have very good returns. Look at the other fertiliser producers in Australia. They are the same.

**CHAIR**—You have just confirmed that it is a world cartel. Thanks. You say you are going to export to New Zealand.

**Mr Duckett**—That is one of the potential markets, yes.

**CHAIR**—What about India?

**Mr Duckett**—India is also a potential market.

**CHAIR**—What do you think the subsidy is in India?

**Mr Duckett**—To be honest, we know that the Indian government are subsidising it, but we are unaware of the degree to which they are subsidising it.

**CHAIR**—In some areas it is 75 per cent.

**Mr Duckett**—I am not surprised.

**CHAIR**—And you expect us to compete against that? Thank you very much for your trouble. I hope you go broke!

**Mr Duckett**—You have to understand that—

**CHAIR**—I understand perfectly. There is a sovereign issue here, and the government ought to bring the sovereign issue to bear.

**Mr Duckett**—We would be quite happy if the government—

**CHAIR**—Wait until Incitec Pivot steps up to the plate. We have got all sorts of silly buggery going on in the fertiliser industry, some of which we have heard about in camera. I declare an interest; I am a farmer. It is no wonder farmers are angry at the absolute arrogance of the treatment they have received in the last 12 months, and you are displaying that arrogance here.

**Mr Duckett**—No, I do not think we are. We are being realistic. Tomorrow, if we wish—

**CHAIR**—I understand that.

**Mr Duckett**—we can go overseas with our product.

**CHAIR**—I understand that. But I have actually got what everyone around the planet is paying for their DAP, MAP and their single super, and in a lot of places it bears no relation to what you are talking about.

**Mr Duckett**—If the Australian government wish to take a similar stance to the Chinese government and the Indian government, I think we would be the first to welcome it. But, at the end of the day, we are a commercial venture, and you are going to be faced with that.

**Mr Duckett**—What farmers are interested in is real competition. You are not real competition; you are just going to join the queue.

**Mr Duckett**—Not unless somebody else builds a fertiliser plant alongside us making urea and they are charging a different price. That is what we are talking about.

**CHAIR**—That is all we need to know from you. Thanks very much. You have summed it up pretty well.

[9.28 am]

**HALL, Mr John, Hall Farms Pty Ltd**

*Evidence was taken via teleconference—*

**CHAIR**—I invite you to make an opening statement, and then we will go to questions.

**Mr Hall**—I think the important aspect of this review is price security for all Australians. Fertiliser is going to affect all batches of society in time, and we need to be doing things in this country that secure those resources so that farmers can get on with the job of farming and we can have some sense of security, not only for farmers but for all people here in Australia. We need to start to act for every Australian to secure our fertiliser deposits and to put price security in place.

**CHAIR**—We have just received evidence from a new industry that is starting up in Victoria and is going to export a strategic amount of their fertiliser, urea, and will probably, given the real costs of production, double its money in the market because of the global price. Do you think there ought to be a case made for a sovereign protection of Australia's fertiliser suppliers?

**Mr Hall**—That is correct. Actually the government can invoke those powers when it becomes a security issue. That is what we should be doing—even perhaps with fuel, but we will just stay with fertiliser. In your inquiry, what you should be checking is all the shiploads of fertiliser that are coming in to this country. You will definitely see that there has been price gouging. We need to do things to protect every Australian, and we need to start doing things with our fertiliser. The farmers are competing against the world on food. There was a guy on television the other day chopping all his cauliflowers up, you know what I mean?

**CHAIR**—Under the present arrangements, it is much the same as the world cartel in fuel. There is now a cartel, from what I can see, in fertiliser. It is all globally related in price, allegedly, before you take out the distortions and corruptions of facilitation fees and subsidies. If, for instance, under the present regime some other country had the capacity to pay a higher price for Australia's fertiliser—say, for instance, India or someone else was prepared to have a generous enough subsidy scheme to dampen the effect on their producers for the global price of fertiliser—then we could be left in a situation where Australian producers are denied fertiliser. Can you see a situation where we will be denied security of supply because of international factors?

**Mr Hall**—We are. A lot of the farmers in Australia are already eating into the equity because of rising input costs. You say that these cartels are operating, and they are starting to operate with the chemicals. So we need to start doing things in this country. That iron ore that we are exporting out of this country is really Australia's, not just for a few that are making huge profits, if we need to go to that level. We need to start doing things that secure the supply and put stability in the market for our fertiliser and even for other areas.

**CHAIR**—Can I just take you back to this time last year. I do not know whether you blokes do early bird ordering over there, but generally we order our requirements in September-October

and last year it started off early in the season at \$580 per tonne and finished at about \$680 and then early bird ordering was about \$760. There was, from the experience in New South Wales, lots of supply available in sheds and various storage units around the place that were withheld from the market, much to the embarrassment of some of the agents, because they were told they could not price it. Did the same thing happen over there? Tell us the history of the fertiliser rise for Western Australia in the last 12 months. Pick out a product.

**Mr Hall**—I am familiar with MAP, and DAP is a little bit similar. This time last year we were buying it for \$608 a tonne. During the year the fertiliser really does not change but all the suppliers put the price up because they know that at seeding time the farmers cannot store the fertiliser they need, so they actually put the price up to make more profit. That is what has been happening. This year, we had a lot of fertiliser ordered for \$800 a tonne and then it all changed and went up to \$1,300 and \$1,700 for that same fertiliser. That is probably to do with the world price, because the suppliers were saying that they were about to purchase a boatload of fertiliser and were told, 'We want more,' and they had to pay it to get the fertiliser in. What areas of society can go from \$600 a tonne to \$1,700 a tonne? What companies in the world can make profits like that in less than six months?

**CHAIR**—Thanks very much for that.

**Senator STERLE**—Mr Hall, I am the only one on the committee who does not have an interest. I am not a farmer, but I am proudly Western Australian. I was reading your letter to the chair, Senator Heffernan, about the conversation you had with a farmer in Varley on urea. Would you like to comment further on that? At the end of your letter you did say you would welcome the opportunity to discuss it, so would you like to go into a bit more detail about that conversation and the subsequent conversations you had with Summit Fertiliser?

**Mr Hall**—The Summit fertiliser was \$900 a tonne at that time. I went to a farmer at Varley to pick up some dagger wheat and I told him it was \$900 a tonne. He said that on that same day he had had the Summit representative there and he could get it for less than \$700 a tonne. I said to him, 'I don't believe you can.' I got him to ring the Summit guy, and he said he wanted this fertiliser tomorrow. I heard the conversation, so it was not a false conversation, and he could get that fertiliser for that price.

**Senator STERLE**—So were Summit looking after their regular clients better than others?

**Mr Hall**—I have not been with Summit that long. Our order was \$600,000 or more. I am just absolutely disgusted with them. One of the managers who is with Summit, Murray Brown, was the previous manager of CSBP. Our record of buying fertiliser from CSBP probably goes back 50 or 60 years. What was happening was just wrong. All of our fertiliser was ordered last year, and they knew what months we were going to pick up our fertiliser and they have just been putting it up when they want to, even sulphate of ammonia, which is not really associated with world pricing because it is a by-product of the nickel industry here in Western Australia.

**Senator STERLE**—So that the committee is very clear on this: you were with Summit anyway when you got that price of \$900?

**Mr Hall**—That is correct, yes.

**Senator STERLE**—Not one phone call, and all of a sudden it has dropped \$200 a tonne?

**Mr Hall**—Yes.

**Senator STERLE**—How many tonnes would you use?

**Mr Hall**—Our order is probably for about 300 to 400 tonnes.

**Senator STERLE**—I am doing some very quick sums here. Is that \$6,000 difference? No, it is more than that, isn't it? It is \$60,000.

**Mr Hall**—Yes.

**Senator NASH**—Would you say that your views on this are representative of those farmers around you over in WA?

**Mr Hall**—A lot of farmers are very worried; that is my view. They are actually looking at buying alternatives. A lot of the farmers in Western Australia are very worried about what is happening with the fertiliser. We are probably fortunate where we are; we are going to have a good season. Esperance had a really ripper season last year, but it is a real debacle this year. The point is that, with the rising grain prices, we thought were going to get a windfall, but everyone is unsure of what is going to happen next. There is no stability in the marketplace, so farmers are very, very worried. Most farmers have been eating into their equity over the last so many years.

**Senator NASH**—Certainly over this side of the country, after the end of so many years of drought we are really dealing with significant depression, if you like, in some of the regional communities. Is it the same experience over there? Are people getting to the end of their tether with this kind of thing?

**Mr Hall**—Just take the farms at Varley, which is more the newer kind of country but is a good area. They are all ringing each other up, trying to give themselves moral support, and they are looking at bulk buying fuel and even at different ways of buying fertiliser. For the industry as a whole, we need to really start to seriously look at the problems, because it is really disillusioning a lot of farmers. It is harder to get labour because mining here in Western Australia is taking a lot of good people out of communities—mechanics and so forth. We need to start doing things. Look at the last hundred years: what has really made this country; where has the money being generated from?

**Senator NASH**—Yes, absolutely.

**CHAIR**—I have been a wheat grower since 1960, I suppose. The Incitec Pivot people are down the back smiling at their corporate profits for this year. We all know there is a certain amount of fertiliser in storage, and we will get to the details of that later and the variation in the management of the availability of fertiliser and the various ways it was withheld. Our experience in New South Wales in October-November was that you could rock up to a shed of a supplier, a reseller, and it would be full. Some of these people who are seriously intimidated by their relationship with their supplier—and in New South Wales that is mostly Incitec Pivot—because

they do not want to lose the business are not game to really say much except to say privately that they are embarrassed by what happened with this one-off gouge this year.

There are two issues for the committee: not only the global cartel behaviour but also the one-off gouge this year with fertiliser ordered in the country before the price rises. We had people rocking up to these sheds—and the sheds would be full with the front-end loader stuck in the front of the shed, having pre-ordered at generally around \$700 a tonne as they had done every other year, and being told by the local agents that they had been instructed by Incitec Pivot—and I have some of the written instruction, and the bit that says, ‘Tell them that the price of wheat is going up and it won’t matter,’ is an especially beautiful line from Incitec Pivot—that they were not allowed to price it and they were not allowed to deliver it. Did you have those sort of experiences over there?

**Mr Hall**—Yes. That was sort of happening in the end. They had written letters saying they could not guarantee the price unless it was paid for.

**CHAIR**—And, of course, the shed was full.

**Mr Hall**—That is right, yes.

**CHAIR**—That is what I call a bit of neat price-gouging. One agent told me that he was rung by Incitec Pivot and asked, ‘Could you please take 600 tonnes of fertiliser because we want to make room down at the port.’ So he took it and it was priced at \$700-odd a tonne, delivered. He said to me, ‘Bill, I’ve been told by the mob that supply is going up to \$1,200 and \$1,300 a tonne. Why wouldn’t I put the \$400 a tonne in my pocket?’ And that is precisely what he did. He held it there until the price went up, and we will get to Incitec Pivot and how they managed all that shortly.

**Mr Hall**—My sister rang the port authorities. You can get all the information but you cannot get it broken down completely. So we had all the information on the delivery of the ships and what the fertiliser was—not whether it was phosphate or ammonia but what fertiliser went to what port. It is very interesting. All that stuff had come in a long time ago, so it just really proves your point that things have been going wrong and they have been using that as a cover to gouge.

**CHAIR**—I have some emails here from the suppliers, which are Hi Fert and Incitec Pivot, from the week before last. They gave them 36 hours. The email says:

This price list from HiFert came four days prior to the new price list from IPL.

Note the similarities in price for the key fertilisers ...

Blah, blah, blah. I suppose it is like with bookies at the races; they watch each other’s book. It goes on:

Note also, Hifert give us ½ a working day to clear out existing orders from the Port.

That is before the price rise. And Incitec Pivot gave the same people 36 hours to clear their forward orders from the port. Have you had that sort of experience of no notice on given orders and just up she goes?

**Mr Hall**—Not exactly, but something close to what you are saying has been happening. They sent letters that were probably a bit more discreet about it saying, ‘If you don’t have your orders all paid by 31 July, it will be going up.’

**CHAIR**—They are doing it a bit tougher over here. In the price list I have here, they put up MAP \$197 a tonne and gave them 36 hours notice. Just so you know who I am talking about down the back of the room, it was Incitec Pivot in the Darling Downs Central New South Wales distribution point. I think that is disgusting.

**Mr Hall**—If you look at all the years of wheat prices, you have never seen the wheat go up that fast in 50 years in one jump.

**CHAIR**—Yes. Anyhow, that is what happens when you have market power. It gives wisdom to Incitec Pivot, I suppose—the ACCC’s wisdom. Thanks very much for your trouble. We share your frustrations.

**Mr Hall**—Thanks very much.

**CHAIR**—I hope you get a bloody good crop, mate.

**Mr Hall**—I hope so too but I do not know where it is all going to end.

**CHAIR**—Just so you know, we took evidence from your cooperative over there, CBH, on another matter earlier in the year. They think they will lose 2,000 to 3,000 members if the fertiliser and chemical regime stays where it is given your high input costs for your relatively low yield. So it is a great challenge to Australia’s farmers to cope with this.

**Mr Hall**—It certainly is and it has already started to be passed down the system, but acting on it is to the benefit of every Australian, not just farmers.

**CHAIR**—It is interesting that the sell of this is: ‘Your Incitec Pivot shares are worth so much money, son, go home and don’t complain.’ Thanks very much. We will now break for morning tea and we will come back to Incitec Pivot straight after. We will break for 15 minutes.

**Proceedings suspended from 9.46 am to 10.15 am**

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

[10.40 am]

**RINTEL, Mr Jamie, General Manager, Strategy and Business Development, Incitec Pivot Ltd**

**WHITESIDE, Mr James, General Manager, Supply Chain and Trading, Incitec Pivot Ltd**

**CHAIR**—I welcome representatives from Incitec Pivot and invite you to make an opening statement.

**Mr Whiteside**—Thank you, Mr Chairman and members of the committee. As general manager, supply chain and trading, I am responsible for the wholesale side of our business. This includes the wholesale supply of fertiliser within Australia and our exports. With me is Jamie Rintel, who until a month ago was our marketing manager responsible for the sale of fertilisers through our 220-odd distributors in Australia. It is probably of more value to the committee for me to use these few minutes addressing specific areas of concern rather than to provide an overview of our submission. However, I do want to reinforce our belief that changing global conditions have been fundamentally responsible for current local difficulties.

The first thing I would like to do is acknowledge that the very sudden increase in global fertiliser prices has created real pressure for farmers. The long-term sustainability of Australian farmers is very important to the Australian economy, and fertilisers have a key role to play as producers strive to improve productivity. As a company we are proud of our success and the contribution that the 1,150 men and women who work in our fertiliser business make to Australian agriculture. We reject outright any accusation of price gouging or unfair conduct. For this reason, we have been particularly concerned by accusations that we have cancelled farmer orders from 2007 onwards. It is very important for the committee to understand that, except in Tasmania, we do not sell directly to farmers. We sell through a network of distributors who are dealers or agents. The broken contracts that the committee has heard about in South Australia are not contracts involving Incitec Pivot; they are contracts between farmers and fertiliser distributors.

We have searched our customer service database back to November 2007 for any instance where we cancelled an order placed by any of our distributors. We have not located a single case of orders being cancelled in the manners claimed. Accordingly, we firmly believe that the complaints that you have received relate to distributors accepting orders from farmers before they checked that we had sufficient stock to supply them.

A further issue raised by the committee is that of hoarding of product in sheds or on ships and not releasing it until prices have increased. We absolutely reject this claim. If people saw stock in our company's sheds during a time when we were not taking orders, then that stock had been either sold or allocated to customers and was awaiting dispatch. At no stage in 2007 or 2008 have we had fertiliser stocks in our sheds which we were unwilling to sell. Stock in up-country sheds in most cases is owned by our distributors, and IPL has no influence on its availability to farmers.

In terms of price transparency, we have gone to great lengths to keep our distributors up to date with price movements. For example, we have issued a substantial number of pricing updates and stock availability alerts to our distributors over the past six months. We have been in constant communication with the market on pricing and supply issues in newsletters and letters, in press releases and media interviews, in meetings with farmers and face to face with dealers and agents through our field staff. One example is the mailing to all of our distributors of a Rabobank global focus publication to help explain the global supply and demand pressures behind rising prices. We have also introduced new ways of ordering and new price cap arrangements to provide distributors and their farmers with greater price certainty.

We are very concerned about the amount of rumour, hearsay and innuendo that has been put before the committee on these issues. It is difficult to respond to vague and unsubstantiated claims, but we are happy to deal with specific allegations. We are here today to provide you with the facts. That concludes our opening statement. May I note at the outset that, to the extent that any questions require us to disclose confidential information, I may request that those matters be deferred to an in camera session.

**CHAIR**—Do you take editorial responsibility for that statement?

**Mr Whiteside**—I do, sir.

**CHAIR**—Did you write it?

**Mr Whiteside**—I co-wrote it with some colleagues.

**CHAIR**—Who wrote it with you?

**Mr Whiteside**—It has been viewed both by Jamie and me and by other senior managers in the company.

**CHAIR**—Someone down the back there?

**Mr Whiteside**—Including some of our PR consultants, correct.

**CHAIR**—In your executive summary of your presentation, you say:

The healthy state of competition in the industry means that it cannot be described as monopolistic, or involving any cartel conduct.

How much of the Australian market do you supply?

**Mr Whiteside**—At a retail level, our market share is—

**CHAIR**—No, at the wholesale level.

**Mr Whiteside**—It is around 70 per cent of east coast Australia.

**CHAIR**—You do not think that is monopolistic? You are pulling my leg, aren't you?

**Mr Whiteside**—I think, if you look at the structure of the market—

**CHAIR**—No. Isn't 70 per cent of anything a monopoly?

**Mr Whiteside**—No, I do not believe it is.

**CHAIR**—You are paid to tell bloody lies. Think about it: you do not think 70 per cent of the market puts you in a monopoly position?

**Mr Whiteside**—If you suggest that being in a monopoly position gives us control—

**CHAIR**—A majority.

**Mr Whiteside**—and means other organisations cannot operate freely in that market—

**CHAIR**—That is not what I am saying at all. You are the majority supplier with 70 per cent of the market. I would have thought you had a monopoly on the market.

**Mr Whiteside**—When we merged Incitec and Pivot, we had a market share of 73 per cent at a retail level. That has now slipped to 58 per cent. The small players in this market have increased their share from seven per cent to 22 per cent over the same period. That would not suggest to me that the market was one of a monopoly.

**CHAIR**—You say in your executive summary:

IPL has been pro-active in developing better ways of doing business with its own customers, its business partners, such as new initiatives to provide greater certainty regarding pricing.

What is that gobbledegook for? What does that mean? It is a meaningless motherhood statement. What have you done?

**Mr Rintel**—On 1 December we implemented a number of changes to the way that we sell product to our business partners.

**CHAIR**—You sure did.

**Mr Rintel**—That involved enabling our business partners to place orders with us that set the price of the product for a period of time that then gave them greater certainty over the price of the product.

**CHAIR**—Thank you very much for that. So you think it is a fair set-up that you have now?

**Mr Rintel**—Yes.

**CHAIR**—To this person last week, you sent out a notice which they got on 5:30 on Tuesday. The price affected Thursday, 17 July. They got it at 5:30 on Tuesday by email in which you said, regarding DAP, ‘We are going to increase it \$197 a tonne effective Thursday, and you’ve got from now till then to clear the stocks that you’ve ordered from our depot or the price goes up.’ Do you think that is fair?

**Mr Rintel**—What we actually provide our business partners, when the price of a product is increasing, is two days notice for them to be able to come and pick a product up at the old price.

**CHAIR**—That is a load of shit as far as I am concerned because of the logistics of doing that. You cannot be fair dinkum. You are a disgrace. Are you trying to tell me that it is fair, for a country agent who has taken an order in good faith from a client of 30 or 40 years, that with 36 hours notice you say to them, ‘I am putting it up \$197 a tonne if you can’t get it out of the depot’? It could take 24 hours for the truck to get there, let alone find a truck. Whose leg are you pulling?

**Mr Rintel**—A point of clarification: if a business partner has placed an order with us, then they have seven days at which to dispatch the product.

**CHAIR**—Sorry, but this email, which is on your letterhead, says, ‘Please find attached that it will take effect from 17 July 2008.’ The agent involved in this got involved, and what he did not get by that date he paid the \$197 extra for?

**Mr Rintel**—That is correct.

**CHAIR**—Was that a mistake?

**Mr Rintel**—If they did not have an existing order in our system, then they only have two days. If it is not an existing order in our system, then that is correct. They have two days in which to dispatch the product.

**CHAIR**—Put your order in and get it out of the depot in 36 hours?

**Mr Rintel**—That is correct.

**CHAIR**—That is what I call very arrogant behaviour. You are a bloody disgrace. No wonder farmers are bloody angry. Could you take me through the logic of why DAP went up \$197 last week and not the week before or next week?

**Mr Rintel**—There has been over a period of time now continuing increasing demand for global fertilisers which has caused all fertilisers, whether ammonium phosphate or nitrogen based fertilisers, to continue to increase in price. We have seen prices on all fertilisers globally increase at least over the last eight months. Even if you go back to as early as 2007, there have been sharp increases in global fertiliser prices.

**Senator NASH**—But why that jump last week? We understand the global trends, but the senator specifically asked why that jump occurred and why it occurred last week.

**Mr Rintel**—There was a continued increase in global fertiliser prices, so the increase in price—

**Senator NASH**—From the week before to last week, what were they?

**Mr Rintel**—I do not have the specific details with me.

**Mr Whiteside**—But it would reflect the timing of our shipment and the time in which the impact of those—

**CHAIR**—Was the shipment out of Townsville?

**Mr Whiteside**—Either Townsville or out of—

**CHAIR**—I have the shipping records of Townsville here. Nothing happened in that week. No prices went up in that week in your operation domestically. You just followed the global signal from somewhere overseas, did you?

**Mr Whiteside**—Yes, for any ship out of Townsville, or if we are importing it, we price on an import parity basis.

**CHAIR**—So wouldn't that be what you would call cartel behaviour?

**Mr Whiteside**—I do not understand. Why would that be cartel behaviour?

**CHAIR**—Because it has nothing to do with your cost of production or supply. It is a market signal from a global cartel that put the price up \$197.

**Mr Whiteside**—It is a market signal from a global market.

**CHAIR**—That is your polite way of putting it, and you are paid well to say that. But I am saying that it is as clear as the nose on your face that there is cartel behaviour here—because it has nothing to do with supply and demand; it has nothing to do with cost of production. It has to do with the global price.

**Mr Whiteside**—The global price is not—

**CHAIR**—If I could go on, MAP has been at about the price that DAP is now for a good while. Why the differential?

**Senator NASH**—Anyone?

**Mr Rintel**—I am more than happy to answer that question.

**CHAIR**—It comes out of the same heap.

**Mr Rintel**—Not entirely, but essentially what happened was we were getting new stocks, so we had stocks of DAP that we had had for a period of time that were at a lower cost. We were receiving higher cost product, which is benchmarked against an international index. So that was reflective of our new cost of stock.

**CHAIR**—In the spring of last year, how much fertiliser—DAP, MAP and single—did you have stockpiled?

**Mr Whiteside**—Spring is a quieter time of the year, so we would not expect to carry a large amount of ammonium phosphate.

**CHAIR**—Exporting?

**Mr Whiteside**—Correct.

**Senator NASH**—Did you have any in stock at the time at all?

**Mr Whiteside**—Yes, we always have product in stock.

**CHAIR**—Tell us how much.

**Mr Whiteside**—I cannot tell you. Most of the winter crop—

**CHAIR**—Would you take it on notice?

**Mr Rintel**—We can take it on notice.

**CHAIR**—Could you give us the details for the last two years of the capacity of your storage, what was in the storage and what was in ship. I have your invoices out of Townsville. How much is demurrage?

**Mr Whiteside**—It varies ship by ship, but it is probably in the order of between US\$30,000 and US\$60,000 a day.

**Senator NASH**—What price per tonne?

**Mr Whiteside**—The ship might carry 40,000 or 45,000 tonnes, so a dollar or two a tonne a day—of that order.

**CHAIR**—No. Could it be 25c to 50c a tonne a day?

**Mr Whiteside**—If you had negotiated a particularly low demurrage rate it could be as low as that, yes.

**CHAIR**—So it could be a couple of dollars a tonne a week?

**Mr Whiteside**—Yes.

**CHAIR**—Wouldn't that be just as cheap a place as any to store it?

**Mr Whiteside**—Why would we do that?

**CHAIR**—We are going to come to that—maybe not today, but we are going to come to that.

**Mr Whiteside**—Our business is to charter vessels, get them filled, bring them here to Australia and get them emptied as quickly as possible. I do not see why—

**CHAIR**—Why did you ring an agent back in September—I declare an interest, by the way; I buy super—and say, 'Would you take 600 tonne from a certain depot at \$740 per tonne'? I am not going to identify the agent because he is seriously intimidated, as most of them are, by the monopolistic supply situation—you say it is not a monopolistic situation, but it is at 70 per cent. This agent was asked to take 600 tonne at \$740 per tonne. Another person within 60 miles of that person has a different commercial arrangement with Incitec Pivot. They were also asked to take fertiliser. They both took it. The first bloke said to me: 'I've been talking to Billy Bloggs down the road. He has been told by Incitec Pivot not to price it or supply it but to leave it in the shed.' The first bloke is a reseller, so he is at liberty to do as he wishes. He said to me: 'They've told Billy Bloggs down the road that it is probably going to rise by \$300 or \$400 a tonne by January, so why would I supply any of the fertiliser I've got in my shed? Why wouldn't I put the money in my pocket?' Do you think that is a reasonable thing to do? Isn't that price gouging?

**Mr Rintel**—The first comment I would make is that we absolutely deny any allegation that we have instructed our business partners, whether they be agents or dealers—

**CHAIR**—We will come to that in due course because we are receiving evidence on that in a suitable forum. Are you denying that there were fertiliser supplies in storage that you would not price or supply?

**Mr Rintel**—Yes.

**Senator NASH**—Let us be absolutely clear. Are you saying that any inability to give a price to farmers, particularly in the second half of last year, was purely the responsibility of either the agent or the reseller and that there was no direction whatsoever from Incitec?

**Mr Rintel**—What I am saying is that we did not instruct any of our business partners—

**CHAIR**—That is not the question. We do not want double talk here.

**Senator NASH**—Are you saying that any inability to give a price at the time was purely at the direction of the agent or the reseller?

**Mr Whiteside**—We are not involved in the business of selling product to farmers—

**Senator NASH**—We know all that, but there was certainly a period of time during which farmers would not be given a price.

**Mr Rintel**—That is correct.

**Senator NASH**—Are you saying that on absolutely no occasion did Incitec give any direction whatsoever to any agent or reseller to withhold a price?

**Mr Rintel**—To the best of my knowledge, absolutely not. There was a period of time in November and December last year when Incitec Pivot had stopped taking orders for ammonium phosphates as we did not have sufficient stocks in our shed to meet the unprecedented demand, which had been brought forward significantly. On that basis, we were not in a position to provide pricing on ammonium phosphate because we did not have a known cost position on the product at that particular time.

**Senator FISHER**—I also declare an interest. My husband and I, through our farming interests, purchase fertiliser. Mr Rintel, during Senator Nash's questions you said, 'That is correct.' Were you referring to the period of time you have just been expanding upon, during which Incitec was unable to provide pricing?

**Mr Rintel**—If the question specifically relates to that period of time then, yes, that is correct.

**Senator FISHER**—My question is: to what were you referring when, in answer to Senator Nash's questions, you said on record, 'That is correct'? I suspect you have just put the example on record, but I want to get your view on whether that is the example to which you were referring and whether there are any other examples.

**Mr Rintel**—I will answer your question in two parts. The answer to the first part is, yes, that is correct; and, secondly, to the best of my knowledge, I am not aware of any situation where Incitec Pivot has made those instructions to their business partners.

**Senator NASH**—Maybe I did not follow this correctly, so can I ask you to clarify. You were just saying that there was that period of time when, due to lack of supply, you were unable to give a price. Is that what you said?

**Mr Rintel**—Correct.

**Senator NASH**—Therefore, wouldn't you assume that it may well have been within that period that agents were telling their customers that they could not give a price?

**Mr Rintel**—Correct.

**Senator NASH**—Isn't that then Incitec saying to the agents, 'We can't give you a price'?

**Mr Rintel**—That is correct, but—

**Senator NASH**—Then why did you just say that there was not any time at all that you directed agents that you could not give a price?

**Mr Rintel**—Because the initial statement that had been made was that there were stocks in the shed. That was the initial statement that had been made. As James has already mentioned, there was no period of time whereby we had fertiliser in our sheds that we were not willing to sell.

**Senator NASH**—No, I am not talking about that. I am talking about the specific instances whereby farmers were unable to get a price from their agent, which happened quite considerably, certainly around the district—

**CHAIR**—It was all over the place; it is no great secret. You must live in the clouds somewhere.

**Mr Rintel**—Maybe if I describe—

**Senator NASH**—Hang on just a second. What I am trying to determine, very simply, is why they could not get a price at the time. You said to me before that at no time did Incitec direct agents not to give a price. But then you followed up by saying that there was indeed a period of time when you did not have the supply to be able to give a price. Which is it? Did you or did you not have a period of time where you could not price fertiliser for farmers? Or was it solely the responsibility of the agent?

**Mr Rintel**—Can I just clarify the allegation. If the question is simply, ‘Was there a period of time whereby Incitec Pivot said to its business partners that it was not in a position to price product because of a lack of supply,’ then the answer is yes.

**Senator NASH**—Oh, I get a yes now.

**CHAIR**—When the lack of supply occurred, we had one person who went down there and took some photos of your storage sheds, which were amply supplied with fertiliser—DAP and MAP—at that time. Were you being selective? If you have supply in your sheds, even though you might not have enough supply to fill the maximum orders, why wouldn’t you have supplied on some sort of first in, best dressed basis? Say I ring up from Wagga and say I want 500 tonnes of DAP. You obviously had DAP in the sheds; the sheds were never empty. Why wouldn’t you supply what you had?

**Mr Rintel**—That is exactly what we did. In early December we had a known quantity of product in our sheds or arriving on a shipment, which we had a known cost position on. So we went to our business partners, allocated that product to them and said, ‘Here is a certain volume of product at a known price. We will keep it in our sheds until the end of February or the end of March, by which time you then have to dispatch it from our facilities.’

**CHAIR**—I want to go back before that, though. I want to go back to when the price jumped even though you had supply in your sheds and your costs had not increased but you were, I suppose, getting a foreign signal. You did a price gouge, without question, where you had tens of thousands of tonnes stored, some of which was delivered in September-October. You are blaming the suppliers. That is fair enough. You are paid to protect the company. Wouldn’t all that fertiliser that was in your shed have been at known cost?

**Mr Rintel**—Which specific period of time are you referring to?

**CHAIR**—Some of the super that was supplied in September came out of the shed at \$740 to the farm gate. That was the price. Some of the same fertiliser that came out of the same shed was \$1,200.

**Mr Rintel**—At what specific point in time?

**CHAIR**—In that same period. I want to know when you jumped with the same fertiliser from \$700 to \$1,200. There is a market intelligence. Some of your suppliers—and I do not blame them—thought, ‘Shit, here’s a one-off opportunity for a financial gain.’

**Mr Rintel**—Are you referring to the period between November and March?

**CHAIR**—I am referring to the season. We want you to give us, this committee, your production, your exports, your imports. When it goes through Townsville, it is identified as domestic and export, isn’t it?

**Mr Whiteside**—When the product is dispatched from Townsville it either goes on a vessel offshore, in which case it is an export, or it is—

**CHAIR**—Is there a separate set of paperwork for that?

**Mr Whiteside**—We can share that information with you.

**CHAIR**—Allegedly it is all exported out of Townsville, whether it goes to Sydney or Taronga Zoo or China. Can we identify from your paperwork where it goes?

**Mr Whiteside**—Yes, sure.

**CHAIR**—So if any of this fertiliser went to an offshore island and sat in the harbour there for a while before it came back to Australia, you would be able to identify that too?

**Mr Whiteside**—I can assure you that you will not find that there; but you could identify that.

**CHAIR**—What I am saying is that there is a clear paper trail.

**Mr Whiteside**—Yes, sure.

**Senator NASH**—Do we have those figures monthly as well over that period of time? I think Senator Heffernan asked for the last two years.

**CHAIR**—I think you should go back two years, yes.

**Mr Whiteside**—Essentially, broadly we export at this time of year, when the domestic demand is limited, when the winter cropping season is over, and from November and December we build inventories for the forthcoming season.

**CHAIR**—Is your Portland plant where you will not be producing this spring?

**Mr Whiteside**—No, I do not believe so. The Portland plant is running.

**CHAIR**—Generally, what is the period of maintenance for your plant? Is it in the winter?

**Mr Whiteside**—That would vary depending on the requirements and—

**CHAIR**—Take Portland.

**Mr Whiteside**—I do not have its maintenance schedule. There may well be between now and the end of the year a planned shutdown of Portland for a couple of weeks that we will build into our plans. We also obviously have issues with running the plant and with some wind protocols. We have an issue of over emissions, so when the wind is blowing from a certain direction the plant has to shut down in accordance with our EPA requirements.

**CHAIR**—There is the notice: ‘Newcastle effective advice, advice date 15 July, effective date 17 July, superseded date 3 July.’ This is the one where you had the \$197 price rise. Your mission statement, which you co-authored and took editorial responsibility for, says:

IPL has also been responsive in dealing with stock shortages, including allocating available stock on an equitable basis. IPL is confident that its actions have assisted in easing the burden on Australian farmers ...

Do you really think that is a fair thing?

**Mr Whiteside**—I do. I think it has been—

**CHAIR**—Because you have not been able to identify to the committee why it went up.

**Mr Whiteside**—It has gone up because the import price of DAP has gone up. We price on an import parity basis around a substantial quantity.

**CHAIR**—That would be out of Townsville?

**Mr Whiteside**—I could not tell you if it was out of Townsville or out of Tampa.

**CHAIR**—You might give us the records of how much you have imported versus domestic.

**Mr Whiteside**—You will find that in the submission.

**CHAIR**—Yes, but you can—

**Mr Whiteside**—We can do it in monthly buckets by—

**Senator NASH**—On that \$197 increase, could you supply to the committee the actual details of the global trend which led to that particular decision—and not ‘in general, global everything is going up’ but specific facts and figures that led to Incitec’s decision to increase that by \$197 at that point in time.

**Mr Whiteside**—It will be related to—

**CHAIR**—We want specific details. Do not answer it now; come back with specific details. I want to get some things on the record. Are you familiar with phosphate rock?

**Mr Whiteside**—I am.

**CHAIR**—Who produces the world's phosphate rock and where do we get ours from?

**Mr Whiteside**—For our superphosphate manufacture the bulk of our rock comes from Morocco, and we also import some from Nauru, Christmas Island—occasionally China, occasionally Togo, I understand.

**CHAIR**—Would it be fair to say that three countries—China, the US and Morocco—produce 77 per cent of the world's phosphate?

**Mr Whiteside**—I have not got those numbers in front of me but I can believe that could be correct, yes.

**CHAIR**—And would it be fair to say that world production of phosphate rock grew 4.6 per cent between 2006 and 2007 and was expected to grow by 28 per cent this year? Would that be anywhere near it?

**Mr Whiteside**—'Production of phosphate rock was expected to increase by 28 per cent'—where has that come from? It sounds high to me.

**CHAIR**—I am asking you to give me the answers to these questions on notice, by the way. The International Fertiliser Industry Association has concluded that, while the international supply of phosphate concentrate is tight in the short to medium term, upcoming capacity projects and the availability of resources are more than adequate to meet growing demand in the longer term. Do you agree with that?

**Mr Whiteside**—I do.

**CHAIR**—So do you think that the price spike now will be influenced by demand and supply?

**Mr Whiteside**—I think it is as a direct consequence of demand and supply.

**CHAIR**—So if demand is met by supply, what do you think the price will be? Are you suggesting that if supply goes up then price will come down? Incitec Pivot has argued in its submission that the price of phosphate has risen 400 per cent since the beginning of 2007. Do you stand by that?

**Mr Whiteside**—I do—for our imported phosphate rocks, yes.

**CHAIR**—Just tell me, how much do you get out of Nauru?

**Mr Whiteside**—We can use Nauru rock in limited quantities because of the high cadmium levels. It would be between 15 and 20 per cent of our total rock. I think that would equate to around 50,000 to 80,000 tonnes per annum.

**CHAIR**—According to my records, in 2004-05 we imported 210,000 tonnes from China, 381,000 from Morocco, 163,000 from Togo and 5,000 from ‘other’. In 2005-06, China came back to 86,000 tonnes. Why was that?

**Mr Whiteside**—Because the domestic Chinese market consumed more of the rock and less was available for export.

**CHAIR**—And did they start to think about tariffs?

**Mr Whiteside**—I do not believe there would have been tariffs on rock at that time, no.

**CHAIR**—It was 205,000 from Morocco, 48,000 from Togo and 15,000 tonnes from ‘other’. In 2006-07, it was 23,000 tonnes from China, 340,000 from Morocco and 27,000 from Nauru. Does that sound right?

**Mr Whiteside**—Yes.

**CHAIR**—What size tonnages would that come out in?

**Mr Whiteside**—We bring that out in 20,000- to 30,000-tonne shipments.

**CHAIR**—So you had one shipment out of Nauru?

**Mr Whiteside**—It sounds like we did in that period, yes.

**CHAIR**—And it was 18,000 tonnes from ‘other’. You might care to confirm the figures for 2007-08. Would you also care to confirm the prices you paid for the rock?

**Mr Whiteside**—To the extent that I am able to, given that they are subject to confidentiality.

**CHAIR**—This year, are you importing rock phosphate from Nauru?

**Mr Whiteside**—Yes.

**CHAIR**—How much are you paying?

**Mr Whiteside**—That is part of a commercial—

**CHAIR**—No, it is not. You might care to give it to us in camera.

**Mr Whiteside**—Sure. I am happy to do that.

**CHAIR**—Would it be \$40 to \$50 a tonne?

**Mr Whiteside**—It used to be. It is not any longer. I am happy to tell you the price history in camera.

**CHAIR**—Is there rock phosphate coming out of Nauru at the present time for \$40 or \$50 a tonne?

**Mr Whiteside**—That is not my belief.

**CHAIR**—Who else imports out of Nauru—not necessarily to Australia?

**Mr Whiteside**—There is an Indian company called Deepak that is taking some rock from Nauru primarily to India, I believe.

**CHAIR**—Would it surprise you to know that that is at \$40 a tonne?

**Mr Whiteside**—It would not surprise me if it used to be \$40 a tonne, but I have no information on what price they may be paying now.

**CHAIR**—Are you paying many multiples of \$40 a tonne now?

**Mr Whiteside**—I am happy to give you the information in camera, but it is not many multiples.

**CHAIR**—Is the Nauru phosphate cheaper than some of the other imports you have?

**Mr Whiteside**—Yes, it is.

**CHAIR**—Is that because there is a minister over there who gets \$4 a tonne as a facilitation fee?

**Mr Whiteside**—He does not get that from us. We had a long-term agreement with Nauru because we put a substantial amount of capital into revamping the plant in 2005-06.

**CHAIR**—What would be a reasonable market price for rock phosphate, not what you are paying, out of Nauru?

**Mr Whiteside**—I would have to confer with my rock-buying expert. You have to look at the P level and the cadmium level. But it would probably be somewhere between \$100 and \$200.

**CHAIR**—If someone went up there and offered them between \$100 and \$200 and could not get supply—yet they are supplying someone else at \$40—would that seem strange to you?

**Mr Whiteside**—I guess it would, yes.

**CHAIR**—Do you understand that the locals are pretty distressed about that?

**Mr Whiteside**—I imagine they would be, yes.

**CHAIR**—Would participating in that sort of trade be improper?

**Mr Whiteside**—Again, it depends on the circumstances. It would depend on the terms of the contract that the buyer and seller had negotiated—and this is not us, I might add, so we are talking hypothetically. I would expect that the buyer and seller would comply with the terms of their contract, and if in the meantime the market changed substantially it would be up to the buyer and seller to work out whether that contract should be renegotiated before its expiry.

**CHAIR**—Is there something wrong in the marketplace when someone is still getting rock phosphate for under \$100 a tonne?

**Mr Whiteside**—I would not say there is something wrong. I would say that that person obviously has a longer term contract than some other off-taker and that subsequent market conditions mean that that price looks particularly favourable. I do not know whether that is wrong or right; it is just a question of the commercial outcome.

**CHAIR**—We will be dealing with that in another forum. Could you give us on notice a brief on how much DAP, single super and MAP you have produced in Australia in the last four years?

**Mr Whiteside**—Those numbers are in our submission, at table 2.

**CHAIR**—How much of that was exported?

**Mr Whiteside**—We would occasionally export 50,000 to 80,000 tonnes of superphosphate, depending on the season. Ammonium phosphate exports are more consistent, and that would be around 200,000 to 300,000 tonnes per annum.

**CHAIR**—In exporting fertiliser have you found that there is global variation in the price? Is there much variation from the landed cost in Brazil or Argentina?

**Mr Whiteside**—No. The market is pretty transparent and pretty global, so if prices go up in one part of the world they tend to go up in another.

**Senator NASH**—Did you export any fertiliser at all between September and December last year?

**Mr Whiteside**—We would have exported ammonium phosphate.

**CHAIR**—It was not available for Australian farmers but it was available for export.

**Mr Whiteside**—Australian farmers consume ammonium phosphate in the winter cropping season, which is not between September and December. But last year was exceptional because we had a rapid increase in price, so demand which we had anticipated would occur in the first and second quarter of 2008 was brought forward to 2007.

**CHAIR**—The cockies woke up to the fact that it was going up. The agents told them because you had told the agents.

**Mr Whiteside**—It was well known that the prices were moving up.

**Senator NASH**—Can you supply to the committee the actual figures on the fertiliser exported between September and December?

**Mr Whiteside**—Yes.

**Senator NASH**—It would be interesting to correlate that against the obvious indications that there was no supply. Of course, the price was going up and there were difficulties for farmers, so it would be interesting to see what you were exporting at the same time the farmers were having difficulty in getting supplies.

**Mr Whiteside**—We are happy to provide that information. We run a planning process and we try to forecast when the physical demand will be. If the physical demand is brought forward substantially, as was the case last year—and we have provided some information on that in our submission—then we occasionally find ourselves being caught short.

**Senator NASH**—At what stage last year did you start informing agents that the global price was going to increase so obviously the price for Australian customers was going to increase? At what point did you start telling agents that that was likely to happen?

**Mr Rintel**—We started providing indications to our business partners that global prices were increasing around late November or early December.

**Senator NASH**—Last year?

**CHAIR**—You do not think it was earlier? I think your information is wrong, old mate.

**Mr Rintel**—The information is quite transparent. Most of our agents and dealers will be looking at the price indices themselves, so they will know that the prices are moving up.

**Senator NASH**—Okay. I will rephrase that. At what point last year did Incitec become, if you like, aware that because of global trends the prices were going to start to increase through to customers?

**Mr Rintel**—If you are talking specifically about 2007—

**Senator NASH**—I am.

**Mr Rintel**—then it would have been as early as February. We saw prices increase on a global basis quite substantially. If my memory serves me correctly, it was around January-February of 2007.

**Senator NASH**—But you did not have any conversations with agents—reflecting on what you were saying before—until roughly November or December about those price increases?

**Mr Rintel**—Sorry; I was taking a more general view of your question. I thought you were specifically referring to the most recent rises that we have seen in global prices.

**Senator NASH**—I will go back to the beginning. From, say, just after halfway through the year, August-September, we were starting to get an indication that the prices might indeed rise, and they did rise very rapidly between then and the end of year and January. What I am trying to ascertain is at what point you had discussions with agents about the potential price rise in fertiliser.

**Mr Rintel**—To be quite honest, I could not give you a specific time period. I am happy to take the question on notice.

**Senator NASH**—Please take that on notice.

**Mr Rintel**—Certainly.

**Senator NASH**—Mr Whiteside, you just said that most of the agents keep track of what is happening in the world and what is likely to happen. You would assume that they would have been aware that the price was going to increase significantly.

**Mr Whiteside**—There has obviously been discussion about rising fertiliser prices for 18 months now, and it is quite a transparent market—people can see that the prices are moving up and they can expect that an increase in a Tampa or a Moroccan DAP index will flow through to higher prices in Australia. If you look at the graph we have provided for you on page 8 of the submission you will see that there was a substantial increase in February 2007 and another one at the end of last year. That information—

**Senator NASH**—So, in terms of supply—and you particularly say agents, but farmers would probably be aware of this as well—would you not think that at that point, if agents and farmers were realising there was going to be a price increase, they would order a whole lot more, earlier than they otherwise would have? Did that not even cross your mind?

**Mr Rintel**—It was not reflected in the forecast which we rely on our business partners to provide us of, firstly, quantity of produce and, secondly, timing of requirement. So we base it broadly—

**Senator NASH**—I understand you are saying there was unprecedented demand from farmers at this time and therefore you could not keep up supply, blah, blah, blah, but didn't it even occur to you that if this price rise was going to happen farmers would be ordering more and earlier?

**Mr Whiteside**—Yes, it did. To the extent that we knew prices were going to go up, we actually did not know that prices were going to go up as they have. We have no more idea of where fertiliser prices are going to go than we do of what is going to happen with the exchange rate, the price of gold or the share market today or tomorrow. We have a view, we knew prices were going to go up—

**Senator NASH**—Don't you look at a whole lot of factors that may well give you an indication of what is going to happen? To say that you have no idea is really a bit—

**Mr Whiteside**—We took a view and as a consequence we were able to accommodate a substantial increase in demand. Again, we have provided the data on page 11 of our submission

that shows that our sales in the early months of the season were substantially higher than they were over the previous year. We were able to bring our plan forward substantially.

**Senator NASH**—How much is substantially?

**Mr Rintel**—If you refer to page 11, specifically for MAP it shows that—this is a year on year figure—to November 2007 there was an 81 per cent increase, to December 2007 there was a 520 per cent increase, to January 2008 there was a 139 per cent increase and to February 2008 there was a 150 per cent increase.

**Mr Whiteside**—So the short answer is that we did everything we could to bring forward supply. We brought forward a number of imported vessels to try and meet early demand but we were not able to meet all additional demand because of the short notice.

**Senator NASH**—But the increase in January and February is surely more a usage increase than a price speculation earlier in the season by farmers buying early. That is just the normal course of events because there has potentially been more crop going in, hasn't there?

**Mr Rintel**—Not of the magnitude that we have seen here.

**Mr Whiteside**—Most of the fertiliser does not physically get used until the crop is sown in April-May-June, when the winter rains come. So in November-December-January—

**CHAIR**—And you have a business plan to deal with that. That is no great shock.

**Mr Whiteside**—No, but our experience over the last five years is that the farmers generally take on a just-in-time basis, and that is our expectation. If there is no compelling reason to take fertiliser early they will not.

**CHAIR**—There was no compelling reason in the last year except that you said for the first time, 'Either take it or cop it.' You are dealing with someone who has been doing this with AFL and you mob for 40 years. September comes and you ring up and get a price, lock it in and she's done. This year it is, 'Sorry, old mate, either you take it now'—which I did, by the way—'or you have to wear the consequences.' The bulk of people had to wear the consequences because they were not able to get supply. There were lots and lots of people affected, and they might have only wanted 20 tonnes, so if there was an early break they could get a bit of oats and that in. Not on your life—you go out and there is the shed full of stuff: 'Sorry, old son, can't supply.'

**Mr Rintel**—Two points. Just by way of illustration around the ability to predict where fertiliser prices were going, obviously the Australian market represents less than two per cent of global fertiliser. We rely on a number of industry experts and publications as guidance in where prices are going. If you go back and have a look at publications such as *Fertecon* and the like and have a look at the price forecasts that they were providing back in September 2007 for March 2008, I think you will find that the price forecasts were substantially lower than where the actual price was at that period.

**CHAIR**—Does it surprise you that, according to the Department of Foreign Affairs and Trade on 16 July 2008, in 2006 the price of single super in China per metric tonne from the

government's source was \$65.22 and \$49 as a guide from the industry? In 2007 it was \$69.67 and \$93.03 from the industry source; and in 2008 it was \$101.15 and \$147.19. Where does that fit into the global parity thing?

**Mr Rintel**—I think China represents one market, and I am not able to specifically comment on those prices, but, if you have a look at other markets for single superphosphate, I think that you will see that they have experienced the same level of price increases that we have experienced here in Australia.

**Senator NASH**—Is the assumption that China just are not following parity or are they subsidising?

**Mr Whiteside**—I think you will probably find that they are subsidised prices. Chinese domestic fertiliser pricing is a complex thing. I do not claim to understand it, but—

**CHAIR**—From the Australian perspective, and food task and availability of food and all the rest of it, as far as Incitec Pivot are concerned you will sell to the highest bidder, won't you? You have a moral obligation to your shareholders. Among them are some farmers, who you try and keep comforting with, 'It's a great story to tell. They were shares that you more or less got for nothing years ago.' In India, for instance, there is a huge subsidy regime—they are paying \$200 or \$300 a tonne for DAP; the rest is subsidised. You would be obliged under your obligation to your shareholders to export to India if you could get a better price over there, wouldn't you?

**Mr Whiteside**—Traditionally we would get a better price selling a product in a domestic market than we would exporting it. Exporting is generally a lower net option for us.

**CHAIR**—What you say does not bear out in DFAT's figures. There is still a hell of a variation in global prices. I have the Argentine here: \$466 up from \$218. Do you export in Brazil?

**Mr Whiteside**—We have exported to Brazil, yes.

**CHAIR**—What would be the driver for that? The price?

**Mr Whiteside**—We sell some SSP to Brazil because we would otherwise turn our plants off.

**CHAIR**—From a sovereign protection point of view, you can give no guarantee to Australia's farmers that they will get your production, can you?

**Mr Whiteside**—Our first and foremost responsibility is to service our Australian clients. This is, believe it or not, our most important market and one which we—

**CHAIR**—Clients or shareholders?

**Mr Whiteside**—Our customer base. We are a company that operates in the Australian economy—

**CHAIR**—But your first obligation, surely, would be to maximise your profits; otherwise, they would not be paying you.

**Mr Whiteside**—The best way of doing that, in the long term, is by having happy customers.

**CHAIR**—The best way is to sell it at the highest price, surely.

**Mr Whiteside**—Correct.

**CHAIR**—So if the highest price is elsewhere, that is where you will go?

**Mr Whiteside**—Hypothetically, but it is extremely unlikely that that will occur. It has never occurred before.

**CHAIR**—What do you import from China?

**Mr Whiteside**—At the moment, almost nothing.

**CHAIR**—Do you buy any stuff from there with a tariff on it?

**Mr Whiteside**—No, not now.

**CHAIR**—Did you ever?

**Mr Whiteside**—I do not believe so.

**CHAIR**—Could you take that on notice. According to the Department of Foreign Affairs and Trade—and some of this information is difficult to obtain—DAP in China last year was US\$393 and this year it is \$573, whereas in Thailand it was US\$385 last year and it is US\$865 this year. There are similar figures for Germany and, for some reason, in Hungary it is a lot dearer. According to this information from the Department of Foreign Affairs and Trade—and I do not know whether this is right or not—MAP in South Africa is US\$2,000. Do you know anything about South Africa?

**Mr Whiteside**—I do not know why they are selling MAP for US\$2,000.

**CHAIR**—The global market is, as you say, obviously like the oil and gas market. There is a sort of global parity thing. Do you agree with that?

**Mr Whiteside**—It is a global market, yes.

**CHAIR**—So if, for whatever strategic reason, distortions developed in the market and there was a price advantage somewhere other than Australia, that is where you would go?

**Mr Whiteside**—It is a hypothetical question that we have never had to consider.

**CHAIR**—Take it as a hypothetical question.

**Mr Whiteside**—We would have to very seriously contemplate what we see as our obligations to our most important market, Australia, before we made any decision on it.

**Mr Rintel**—We take a long-term view of the marketplace, so acting opportunistically in a hypothetical situation may not necessarily be the best long-term outcome for our customers or the company overall.

**CHAIR**—Is that how you would justify it to your shareholders if you were hypothetically in that situation?

**Mr Rintel**—We take a long-term view of the markets that we believe are going to deliver the most benefit to the company over the longer term.

**Mr Whiteside**—But I honestly cannot envisage a circumstance in which we would contemplate exporting at the expense of the domestic market. I cannot imagine us being in that position.

**CHAIR**—Unless there is a price differential.

**Mr Whiteside**—I cannot imagine why there would be.

**CHAIR**—You do not think that some countries are prepared to subsidise fertiliser, as India has done?

**Mr Whiteside**—The Indian government will pay import parity for its imports. It then chooses to subsidise the price that the Indian farmer pays. But someone selling into India receives an import parity price for their product; otherwise, they would not sell it to India.

**Senator NASH**—Given what you have said about the importance of the Australian market, why did you continue to export at the end of last year when there was obviously a supply issue here?

**Mr Whiteside**—We did not. We exported at a time when we did not believe there was a supply issue.

**CHAIR**—Whose leg are you pulling!

**Senator NASH**—We are talking about September last year onwards?

**Mr Whiteside**—I will get our export program for you. Certainly by December we were not exporting any product. Our exports occurred in July, August and September, and maybe into October, when our forecast was that we would have sufficient product to meet domestic demand.

**CHAIR**—Why would you send a letter out to a supplier in September, explaining what is about to happen in flat language—you blokes down the back might have written it. Part of the explanation that you gave to this supplier to tell his farmers was that the price of wheat is going up and, therefore, they can afford to pay these new prices for super. Why would you use that sort of garbage on people? Do you want me to give you a copy of the letter?

**Mr Rintel**—If you could. We would appreciate a copy of the letter. I do not believe the letter you are referring to was actually sent out in September. I believe it was sent out in December—if we are referring to the same letter. But I am not aware—

**CHAIR**—Why would you even send it out in December?

**Mr Rintel**—We sent out a letter in December to inform our business partners of the global dynamics that were (1) impacting the price of fertiliser and (2) impacting the prices of grain.

**CHAIR**—But when you sent that letter out you were not exporting. You say you have Australia's customers as the core of your heartstrings. Nothing had happened to substantially increase the price of fertiliser out of the Port of Townsville. Why did you not lean more towards your users rather than your shareholders? You took the maximum for your shareholders. There were tens of thousands of tonnes in storage that could have gone out to farmers. Some did. This committee has talked to various people who got it for \$680. Some have paid \$1,600. You have played Australia's farmers on a break because you are a monopoly.

**Mr Whiteside**—Again, we price our product on import parity. There are other people who import fertiliser into Australia and they have 40-odd per cent of the retail market. Some of them buy from us or they buy from other producers offshore.

**CHAIR**—But you produce a million tonnes of DAP and MAP, right?

**Mr Whiteside**—A bit less, yes.

**CHAIR**—And 780,000 tonnes of single super?

**Mr Whiteside**—Around that, yes.

**CHAIR**—What percentage of Australia's usage is that?

**Mr Whiteside**—That data is in our submission.

**CHAIR**—Put it on the record. That is a lazy answer.

**Senator NASH**—A lot of people just read the transcript and not your submission.

**Mr Whiteside**—The question again was?

**CHAIR**—You produce a million tonnes of MAP and DAP, right? You agree with that.

**Mr Whiteside**—It is actually between 900,000 and a million tonnes.

**CHAIR**—Nine hundred and eighty thousand tonnes is the figure. How much do we use?

**Mr Whiteside**—In Australia?

**CHAIR**—Yes.

**Mr Whiteside**—We use around 700,000 of that 980,000.

**CHAIR**—That is the total?

**Mr Whiteside**—Sorry, that is how much of that plant—

**CHAIR**—No, how much do Australian farmers use? What is our total use?

**Mr Whiteside**—Total DAP and MAP is 1.3 to 1.5 million tonnes, so about half the market is met with our own production and the other half is imported.

**Senator STERLE**—But you do not supply Western Australia, do you?

**Mr Whiteside**—We do not have any distribution in Western Australia.

**Senator STERLE**—So when we talk about Australian consumption and we talk about your production, there are two completely different balances there. You are talking about eastern states supply.

**Mr Whiteside**—Primarily—that is correct.

**Senator STERLE**—So we should not be mentioning Australia. When we mention Australian figures there is no quid pro quo there.

**Mr Rintel**—The use of DAP in the east coast market is roughly 700,000 or 800,000 tonnes total demand.

**CHAIR**—So you would more than supply that.

**Mr Whiteside**—Except that we do not, because there is a substantial quantity imported.

**CHAIR**—Yes, I would say you do not too—because you want to participate in the global market, I guess. Your production is 780,000 tonnes of single super; what is the demand there in eastern Australia?

**Mr Rintel**—For eastern Australia only, 600,000 to 700,000 tonnes is roughly what we supply. I do not know what the total demand is for single super on the east coast, sorry. We can get you that figure.

**CHAIR**—This is a bit like the Condamine-Balonne. You produce about two per cent of the world's DAP and MAP, right?

**Mr Rintel**—Correct.

**CHAIR**—But you produce all of Australia's production of DAP and MAP?

**Mr Rintel**—Correct. There is only one plant.

**CHAIR**—And you do not think that is a monopoly?

**Mr Rintel**—We are the only manufacturer of DAP and MAP, so to the extent—

**CHAIR**—You are monopolistic domestic suppliers and manufacturers.

**Mr Rintel**—There are other people importing DAP and MAP quite happily.

**CHAIR**—I understand that. I am talking about manufacturing and supply. You are a monopolistic—

**Mr Whiteside**—Incitec is one manufacturing facility.

**Senator NASH**—So, hypothetically, if you were prepared to store it and not export you could quite easily supply the country's farmers needs for fertiliser, couldn't you—just on those numbers?

**Mr Whiteside**—Whether we import or not the expectation is that we supply domestic demand. The fact is that last year we had a substantial change in the time at which people wanted to take product, so whether it was met with—

**CHAIR**—And that timing was brought about by your pricing. You are sitting in your own seat on that. It would not have happened any different from any other year—there is no need to curl your lip—only that you put out the order that you had to pay to take. You could not pre-order on 'early bird' as you used to call it in the friendly language that you used to have. There was no such thing as early bird. Pay it—put up or shut up is what you said last year.

**Mr Rintel**—In fact, we dispatched 40 per cent more fertiliser up until February 2008 than we had in prior years.

**CHAIR**—To suppliers.

**Mr Rintel**—Correct.

**CHAIR**—And then you tempted the suppliers with \$400 a tonne which they could put straight in their kick. A lot of that fertiliser that went out in the spring was priced in the \$700s and a lot of it was resold in the \$1,100 to \$1,200, just by holding it till after Christmas—and that is fair enough; that is business. But it is also what I call monopolistic behaviour. But you do not use that language or you will get the sack.

**Mr Rintel**—We do not control or influence the price that farmers pay for fertiliser. That is a decision that our business partners make in terms of the price that the fertiliser gets sold for.

**CHAIR**—You are not serious! What do you mean you do not control the price? Of course, you control the price. It depends what you charge the resupplier.

**Mr Rintel**—That reflects their costs of goods, correct, but the price that they charge farmers—

**CHAIR**—What sort of gibberish are you talking to say that you are not part of it? Of course you are part of it.

**Mr Whiteside**—Once we have sold the product to our business partner we have no—

**CHAIR**—I understand that, but you just said that you do not influence the price. Of course you influence the price! You determine the price!

**Mr Whiteside**—The point is that the price that the farmer pays is not one that is negotiated between our dealer—

**CHAIR**—So why was it cheaper in Tasmania earlier? You have agents there. What was the difference in their treatment?

**Mr Rintel**—To answer that we would need to know the specific time and the specific product that you are referring to.

**CHAIR**—How many agents versus resellers do you have on the mainland?

**Mr Rintel**—The total number of business partners?

**CHAIR**—Yes—resellers versus agents. In other words, how many get invoiced by you and how many get invoiced by the reseller? What is the break-up?

**Mr Rintel**—In terms of percentage—

**CHAIR**—No.

**Mr Rintel**—I do not know the specific number. I am happy to take that on notice and we can provide you with that answer.

**Senator NASH**—Do you have a rough idea? How many are there all up? Is it 220?

**Mr Rintel**—It is roughly that. Resellers, or agents as we refer to them, are about 20 to 30 per cent, if memory serves me well, of business partners.

**Senator NASH**—Which is in total how many business partners?

**Mr Whiteside**—It is 220 in total.

**Mr Rintel**—Yes. I do not know—

**Senator NASH**—Were you just about to say that you do not know how many business partners you have?

**Mr Rintel**—I do not know the specific number. Roughly about 20 to 30 per cent of our total business partners—

**Senator NASH**—You do know the specific number of business partners, though, don't you?

**Mr Rintel**—The statement says 220. At the time of writing this submission, that number was correct. So 20 to 30 per cent of 220—

**Senator NASH**—How quickly do they change? How often do you lose or gain a business partner?

**Mr Rintel**—It can be quite frequent.

**Senator NASH**—How frequent is quite frequent?

**Mr Rintel**—Once every quarter. We can gain or lose one or two business partners a quarter.

**Senator NASH**—So you have a fair idea that there were 220. What percentage did you say were resellers?

**Mr Rintel**—About 20 to 30 per cent.

**Senator NASH**—Can you come back with the exact figure?

**Mr Rintel**—Certainly.

**CHAIR**—What was the difference in the treatment that the reseller got and the agent got back in September?

**Mr Rintel**—Just to clarify: we refer to our business partners in two ways: one is as an agent and one is a dealer.

**CHAIR**—What was the difference between the agents and the dealers in terms of the treatment they got through last spring? I have written evidence of the treatment from both sides of the equation, and they are very, very unhappy that you landed them right in the shit, you made them wear the shit and you have come here today blaming them and continuing to have them wear the shit.

**Mr Rintel**—I do not think we are trying to blame them in any way.

**CHAIR**—You said earlier that it was all up to them. That was your opening statement—correcting it and putting it on the record is what you said.

**Mr Rintel**—You need to provide specific examples of the different treatment that you are alleging for me to be able to respond to that.

**CHAIR**—What would have been the treatment in September for an agent in New South Wales who put in an order for DAP? What happened to him? Did you supply him? How did you differentiate between your agents and your resellers, given that you said you had more orders than you had fertiliser? How did you draw the line?

**Mr Rintel**—We did not draw the line between agents and dealers.

**CHAIR**—So it is just first in best dressed?

**Mr Rintel**—No. We allocated products based on historical off-take from the company and also on demand forecasts that we had in our system.

**CHAIR**—What does that mean? A new agent would not have got any?

**Mr Rintel**—If somebody had not purchased product from us before, so effectively they had not been our agent or our dealer, and we did not have a known forecast for them in the system then it is quite possible that they would not have received product.

**CHAIR**—So if I had started a business—Bill Bloggs Fertilisers Pty Ltd—in Junee because the bloke that did it dropped dead or ran away from home or whatever, you would have told me to go and bite my backside, would you?

**Mr Rintel**—I think you would need to provide a specific example for me to be able to answer categorically one way or the other.

**CHAIR**—Whose decision is that?

**Mr Rintel**—Which decision are you referring to?

**CHAIR**—The treatment of the individual agent or reseller. Who makes that decision?

**Mr Rintel**—We do not differentiate.

**CHAIR**—Who makes that decision? I am not asking you whether you differentiate.

**Mr Rintel**—I make the decision.

**CHAIR**—You are the key.

**Mr Rintel**—As I said, if you would like to provide some specific examples then we would be more than happy to respond to the specific examples that you have.

**Senator NASH**—This is a hypothetical, but a pretty straightforward one: if you had a couple of agents who had a history of dealing with you in thousands of tonnes, how did you make a decision if one of those agents came to you with a fairly significant order and another with a smaller order, purely because they may not have had as many farmers come to them and order early? How did you balance that up in allocating the limited resources of stock that you had?

**Mr Rintel**—As I said, we looked at historical off-take from the company and the level of that historical off-take. We then looked at the forward demand from those prospective business partners. Then we allocated product on that basis.

**CHAIR**—Are you prepared to say here today that there were no agents in Australia whom you supplied in the spring of last year that had any restriction on their capacity to resell fertiliser as soon as it hit the shed?

**Mr Rintel**—To the best of my knowledge, no. But, as I said, if you would like to provide a specific example, then we would be very happy to—

**CHAIR**—No, I am asking you to prove that that is the case. We do not have to prove it. You prove it.

**Mr Rintel**—You are asking a very general question. As I said, to the best of my—

**CHAIR**—We are not in the business of playing games or telling lies. There are lots of agents out there that told us they were put in a very difficult position by Incitec Pivot in the spring. You can purse your lips as much as you like.

**Mr Whiteside**—No, I think that is the case. As I said, there was unforecast demand in the spring for the subsequent winter cereal crop, which we had never experienced before. So both agents and dealers were unable to—

**CHAIR**—Yes, I appreciate that. They are all intimidated by you because they do not want to lose their business by going on the record and coming here and telling me tales of the bloody disgraceful woe that you put them through. I wonder why some of these people had fertiliser in their sheds and could not supply it. Some of them were your agents. Can you think of a reason why? When the fertiliser goes out to the shed—obviously, you have to pre-order. I have been doing it since long before you were born. You obviously have a business plan for the season. Part of it is to get fertiliser out, and it is a lot easier these days in bulk than when it was in bloody 180-pound bags. And you do; you get it out there. When it goes out to an agent, do you price it for the agent when it leaves the depot?

**Mr Rintel**—With the product that is supplied to our agents, we have an arrangement whereby we provide them with what we call consignment stock, so the product is actually priced at the time that it is dispatched from the agent's facilities. The agent is fully aware, on the day that they are dispatching the product, of the cost of that product to them at that particular point in time.

**CHAIR**—Do you invoice?

**Mr Rintel**—We invoice the customer for the agent. That is correct.

**CHAIR**—So if there were people out there who went to an agent last year and were told that they could not supply or price the fertiliser that was in the shed, you would say that was a lie.

**Mr Rintel**—I would say, to the best of my knowledge, no.

**CHAIR**—Not possible?

**Mr Rintel**—As I said, to the best of my knowledge, no.

**CHAIR**—How good is your knowledge?

**Mr Rintel**—I would like to think it is reasonably good.

**CHAIR**—Do you have day-to-day contact with your agents or do they have to go through a whole lot of barriers to get to you? Do you ring up and say to whoever at Temora or Coolamon, ‘How are you going today, mate? How are things?’ Do you ever get a touch and feel for what is out there?

**Mr Rintel**—I speak to our business partners on a periodic basis, yes.

**CHAIR**—You are so well groomed and careful. They ought to pay you double.

**Senator NASH**—Can I just take you back to that period last year between September and December. I appreciate you will probably have to take this on notice, but could you supply for the committee the individual figures for single superphosphate, MAP and DAP that you allocated? That was obviously your job, having to go through that terrible mathematical conundrum of what you were going to send where. How much single, MAP and DAP did you actually supply between the beginning of September and the end of December? Also, in those three categories, can you tell us how much you were unable to supply?

**Mr Rintel**—I will answer that question in two parts. I am certainly happy to provide the information. The first point is that we did not actually start allocating product until December, but we are more than happy to provide the data in terms of how much product we allocated and so forth over that period of time. We are more than happy to provide that information.

**Senator NASH**—And also then, to change the wording, how much you were unable to allocate in that same period.

**Mr Rintel**—That is a more difficult piece of information.

**Senator NASH**—Why is that?

**CHAIR**—You said that supply did not meet demand, so you must have had figures.

**Senator NASH**—Yes. Why is that more difficult?

**Mr Rintel**—We have an indication of the level of demand, but we do not specifically track how much demand was in a period of time. So we have business partners coming to us and saying, ‘We’d like product,’ and so forth. We accept that piece of information and say, ‘Unfortunately we’re unable to supply; we’ll have to waitlist that.’ That does not necessarily reflect the total demand that there was at that specific period of time.

**Senator NASH**—But you must know, for that period between September and the end of December, how much you were not able to allocate, because you do the figures. You said you had a mathematical equation for basically how much they wanted and how much you could give them and that you had to make then a discretionary decision on what was going to go where.

**Mr Rintel**—If we assume that total demand equalled 100 per cent of their historical off-take and 100 per cent of their demand forecast at that specific period of time, then, yes, that is correct.

**Senator NASH**—Are you telling me that you cannot give me the figures on what you could not allocate from September to December?

**Mr Rintel**—What I am telling you is that—

**Senator NASH**—That is a simple yes or no.

**Mr Rintel**—We can provide for you the historical demand and the known demand forecast that we have in our system. The point is that the demand forecast is spread out over a 12-month period and does not necessarily reflect the demand forecast in a particular window of time.

**Senator NASH**—But, for us to be having the discussion very clearly and simply about the fact that you could not allocate supply during that period of time because of the unprecedented demand, you must have had an idea what that demand was to be able to say now that you could not meet it.

**Mr Rintel**—It is fair to say, as a way of illustration, that we now have in our fertiliser sheds product that we had forecast for on the basis that it was required that is now no longer required. So does that equal 100 per cent of demand or does it not?

**CHAIR**—Do you know why that is?

**Mr Rintel**—I am happy to go back and say, 'Here are the historical figures on which we based this,' and provide them to you. What I am not comfortable with saying is that that is the precise figure of total demand at that particular period of time.

**CHAIR**—Do you know why your demand was out?

**Mr Whiteside**—I believe we do, yes.

**CHAIR**—Are you saying your forecast was not met by the demand?

**Mr Rintel**—What I am saying is that we had forecast for product—

**CHAIR**—And the demand was not there.

**Mr Rintel**—Correct.

**CHAIR**—Do you know why? Because we did not use as much. Instead of putting 120 kilos on, we put 60 on, because we could not afford 120. That is what you have done to Australia's farmers.

**Mr Rintel**—I think potentially seasonal conditions may have had an effect on that as well.

**CHAIR**—Pig's arse.

**Senator NASH**—Just on that: I would like you to supply the committee with those figures, to the best of your ability. This is a really important point, because we are continually being told that the lack of supply had such an impact on farmers at that time. For Incitec not to know how much the demand was against how much you could supply—maybe there was not that much of a gap and maybe this is all just a big furphy, which is why we would like to have the figures.

**Mr Rintel**—When we supply the figures, I think explanation with the figures may illustrate the point I am trying to make but obviously not conveying that well.

**Senator NASH**—No, you are making your point very well; it is just not answering my question very well. But your point is well made.

**Mr Rintel**—When we supply the data, we will be more than happy to sit down and talk about exactly the process we went to and how the figures were derived.

**CHAIR**—According to the data that is available, in 2008 you exported 236,000 tonnes of DAP from Townsville to primarily Pakistan, India, Bangladesh and New Zealand. If there was pent-up demand in Australia, why didn't you meet it out of that?

**Mr Whiteside**—Those exports were before we became aware of the substantial shift in demand from April-May to November-December. The export ships start going in June-July.

**CHAIR**—But we cockies do not vary our crops. Most cockies try to put in the same amount of crop, within reason, in a rotational set-up. What made you think this year was going to be any different from any other year—rain?

**Mr Whiteside**—What was different was not that the total market got any bigger or smaller but that farmers wanted to take the product substantially earlier.

**CHAIR**—That was because you created that circumstance with the price signal you put in the market.

**Mr Whiteside**—We price on an import parity basis. As the price goes up in the global market—

**CHAIR**—What sort of mug management would it be not to know that, if you were going to put out a price signal of a \$400 increase, blokes would not want to get it before it went up! Jesus, I'm pleased you're not running my place!

**Mr Whiteside**—Those exports started in June-July 2007, not September-October 2007. The export program starts in June-July, so by May we are signing contracts to export product. For the last nine years the plant has serviced the winter cropping market in the first and second quarters of the year and the Queensland and export markets in the third and fourth quarters of the year. It was only because the winter cropping market came forward into the fourth quarter of 2007 that we had several weeks where we were not able to supply product.

**Senator NASH**—How early on were farmers told: ‘Forget about the early bird scheme. If you want it now you have to pay for it now’?

**Mr Rintel**—To be quite honest, I am not sure of your specific question.

**Senator NASH**—I am referring to what Senator Heffernan said earlier, which was that, if farmers wanted to put in an order, they had to pay for that order early in the season. That differs from years gone by, when you could put in an order and the price would hold for some time and after several months you could pay for it. But that seemed to disappear last year. I am just asking: to your knowledge how early, prior to December, did that start happening with farmers?

**Mr Rintel**—We started allocating product in December. We offered to our business partners a known volume at a known price. If memory serves me correctly, they had until the end of February or March to dispatch that product—and they have to pay for the product at the point of dispatch.

**CHAIR**—You keep crapping on about November-December. A lot of fertiliser went out into a lot of sheds in September-October, and we were told to pay for it. Some resellers were disappointed that, through their relationship with their customers, they were intimidated into delivery—and then they said, ‘You’d better pay for it.’ What was the difference in the arrangement with the resellers—not the agents but the dealers—with supply and pay? What was different about the credit arrangements between last year and the year before?

**Mr Rintel**—When product is dispatched from our facilities, the dealers have 30 commercial days to pay for the product. Those are our standard terms and conditions.

**CHAIR**—Has it always been thus?

**Mr Rintel**—Those our standard terms and conditions, yes.

**CHAIR**—That was not my question—you are well groomed! Is that what has been going on traditionally? When I go to a reseller and say, ‘I’ll have 50 tonnes of DAP for next March,’ up until this year the reseller has said yes, and when March comes along I get the super and the account. Has he always traditionally carried that or did you carry some of it?

**Mr Rintel**—If you are talking generally over a number of years, from time to time the company has run different promotional schemes which may have involved extended payment terms.

**CHAIR**—That goes back to Senator Nash’s question. When did you change that?

**Mr Rintel**—We run different promotional schemes at different times of the year in different years.

**Senator NASH**—It might have been easier if I just asked about this year in the first place. There was no extended payment scheme on offer to farmers through Incitec this year?

**Mr Rintel**—What we offered to our business partners was a set volume of product at a set price that they could dispatch anywhere from December until the end of February.

**CHAIR**—No, we are talking about stuff that happened before December. Forget about December; we know that story backwards. We want to know about what happened before December because that is when the gouge happened. What were the arrangements—

**Mr Rintel**—As I said earlier, you would need to provide a specific example of what you are referring to.

**CHAIR**—You are pulling my leg, surely.

**Mr Whiteside**—We do not have a marketing campaign to sell winter cropping fertiliser in September and October of any year. We do not usually have an early bird or any other campaign until December-January. The fact is there was demand brought forward this year because the international price went up and, before we realised—

**CHAIR**—With great respect to your answer, for the last umpteen years in September the local agent tells me, ‘Bill, are you going to go in on the early bird?’ and I say, ‘Yes, mate, and I’ll have that much.’ That has been going on as long as I can remember. This year it was different because there was a signal in the market.

**Mr Whiteside**—I am not aware of the arrangements that you have in your district but, generally speaking, the bulk of the winter cropping fertilisers is not committed until early in the new year.

**CHAIR**—But if I am a reseller and the year before last you ring me up and say, ‘Will you take 600 tonnes of fertiliser to clear a bit of room in the depot?’ do you carry that?

**Mr Whiteside**—No. Presumably it will be the reseller’s stock. He will own the stock, so it will not be a transaction that we have anything to do with. We will not carry the debt.

**CHAIR**—Righto. I will give you the answer in a second. I will ring him.

**ACTING CHAIR (Senator Nash)**—While Senator Heffernan is out of the room, I want to discuss the part of your submission where you talk about why Australian prices are based on import parity. On page 9 you talk about IPL being price takers:

The price they receive for locally manufactured product is determined on world markets, and their individual decisions make no impact on the world benchmark price. If a domestic manufacturer sought to raise local prices above import parity, then customers would simply purchase imported products instead.

If I am Joe Bloggs, a farmer out at Condo, and my local reseller decided he was going to lift his prices about import parity, how would I purchase imported product?

**Mr Whiteside**—I think that comment refers to fertiliser importers. You would be aware that we also sell our ammonium phosphates from Townsville to our retail competitors, the likes of Hi Fert, Impact and other retail operators in the marketplace. We sell to them on an import parity basis and this analogy was based at that level. If we were to try to sell to Hi Fert or Impact at a price above import parity, they presumably would go and import at import parity, which would be lower.

**ACTING CHAIR**—So you are saying that out there in the market there would be competition because somebody else who is importing it would not be upping the price above parity?

**Mr Whiteside**—Correct. Import parity is the price at which you can import fertiliser. That is why our retail competitors may choose to buy from us or they may—and do—choose to import in their own right.

**ACTING CHAIR**—What if I am Joe Bloggs in Condo and I only have one agent and the nearest other agent is 200 kilometres away? How does that competitive model work if I cannot actually access it without an enormous freight and impost cost on it?

**Mr Rintel**—Our business partners are free to choose who they purchase product from. Incitec Pivot is not the only supplier in the market. They are free to choose from other wholesalers in the market, whether they be Hi Fert or Impact; they can choose to purchase products from them.

**ACTING CHAIR**—But, if they all did that, that would give them only 70 per cent of the supply you have. That is correct, isn't it?

**Mr Whiteside**—At the wholesale level.

**ACTING CHAIR**—At the wholesale level. So if there are other suppliers, they are dealing with the other 30 per cent of the market. That is right.

**Mr Rintel**—At a retail level our market share is 58 per cent.

**ACTING CHAIR**—Even with 58 per cent, hypothetically if you raise prices over import parity it does not leave a lot to go around Australia, does it? My point is that I understand the statement, but it is really not practical or feasible if you look at it hypothetically, take it perfectly on face value, as you have said.

**Mr Whiteside**—As I said, we sell to a number of other importers in Australia. If we were not competitive with imports, they would not buy from us. That is the point we are making; that is all.

**ACTING CHAIR**—I understand the point you are making. Can I take you back to something which I noted along with Senator Heffernan and which we have already had some discussion around, this 'implementing of new initiatives to provide greater certainty regarding pricing'. We

have touched on it in a roundabout way, but can you give me a detailed explanation of what those initiatives are around providing that greater certainty for pricing?

**Mr Rintel**—Certainly. As of 1 December, one of the specific changes that we introduced was to our standard terms and conditions so that when you place an order the product needs to be dispatched within a seven-day period.

**ACTING CHAIR**—What was it prior to that?

**Mr Rintel**—Prior to that the product was priced at the time of dispatch.

**ACTING CHAIR**—So you are basically saying that you are going to hold that price for seven days.

**Mr Rintel**—Correct. That is a specific example of an initiative which we introduced as of 1 December 2007.

**ACTING CHAIR**—Yes. What else?

**Mr Rintel**—Another example is that we introduced what we called a 21-day option, which enabled business partners to order product and we capped the price for a 21-day period. In exchange for capping that price there was a requirement of our business partners to take at least 90 per cent of the product they had ordered in that 21-day period.

**ACTING CHAIR**—How much longer did they have over those 21 days to take the last 10 per cent? I will just make sure I got that right. You said that in order to have the 21-day holding price they had to take 90 per cent of the ordered amount?

**Mr Rintel**—They had to take at least 90 per cent of the ordered amount.

**ACTING CHAIR**—Within that 21 days?

**Mr Rintel**—Correct.

**ACTING CHAIR**—What has been the reaction and response to that? How many of your agents and dealers have taken up that option?

**Mr Rintel**—I do not have the specific number, to be honest. If you want a specific number, I would need to go back and have a look at our records.

**ACTING CHAIR**—I would like a specific number, so if you could go back and have a look at your records and supply it that would be very helpful.

**Mr Rintel**—Certainly. I am more than happy to do that.

**ACTING CHAIR**—Are they the only two new initiatives to provide greater certainty regarding pricing?

**Mr Rintel**—The other thing that we did was the allocation of product—that is something that we have not had to do in prior years—whereby we gave our business partners certainty over volume and certainty over price for a period of time.

**ACTING CHAIR**—With the first one you are talking about—putting the standard time out to seven days rather than just a day—do you think that is long enough? Have you looked at doing it for even longer than just a seven-day period?

**Mr Rintel**—We have looked at doing it for longer, yes.

**ACTING CHAIR**—And?

**Mr Rintel**—I think it is something that we are considering doing.

**ACTING CHAIR**—Do you have a time frame in which you are going to make a decision on that?

**Mr Rintel**—We will make a decision before the end of this year.

**ACTING CHAIR**—Can I also talk about the price of grain, which has been part of this debate. There has certainly been a bit of a view in some quarters—whether or not that is from Incitec or others—that the price of grain has gone up so much farmers will be able to afford fertiliser. But beyond that, when we are talking about global movements what impact, if any, does the increased price of grain have on the price of fertiliser? Is there any correlation?

**Mr Rintel**—I am not aware of a correlation, if that is what you are asking. I have not done an analysis to see, if the price of grain moves, the world price of fertiliser moves. I think what we would say is that the global dynamics that are driving grain are the same global dynamics that are driving the price of fertiliser. So the dynamics around increased demand for grain in the context of increasing population, which is obviously driving an increased need for food et cetera, are increasing the global demand for fertiliser as well.

**CHAIR**—You really believe that, do you?

**Mr Rintel**—Yes.

**Senator NASH**—When you look at the price of wheat going from around 1,300c a bushel down to about 800c a bushel now, if those two things you were just talking about are linked, why hasn't that perhaps stimulated downward pressure on fertiliser prices?

**Mr Whiteside**—There are a range of agricultural commodities that drive fertiliser demand. Sugar prices are low. Wool prices have not seen anything like the meteoric increases we have seen in other grain crops. Corn prices are higher, although they may have come back. But there is a whole raft of drivers of fertiliser demand and the fact is that agricultural commodities around the world on average have increased, so farmers around the world on average are trying to grow more crops and are consuming more fertiliser.

**CHAIR**—Do you think that is related to supply and demand?

**Mr Whiteside**—Of grains?

**CHAIR**—Yes. You do not think the fact that the US farm crop was speculated 300 per cent last year through the commodity exchange—

**Mr Whiteside**—I am not a macroeconomist.

**CHAIR**—They spiked it \$150 a tonne in one week. That is the commodity speculation.

**Mr Whiteside**—I do not claim to have any expertise in that area, but it is undoubtedly the case that demand for food is increasing. Notwithstanding the fact that there may be individual speculators in the marketplace, the fact is that the demand for food has increased and has pushed up the price of agricultural commodities. So the demand for fertiliser has increased.

**CHAIR**—A balance between supply and demand, cost of production and commodity speculation is the thing. That is exactly what you blokes are about, too. You are absolutely maximising it. By the way, the bloke I rang—I will not use the language he used because I cannot put it on the record—is very, very, very disgusted with the treatment that he and his employees have got from Incitec Pivot this year. He is so angry, I will not tell you what he said. He is just blown away with the pigheaded, ignorant attitude. He said to me: ‘Bill, since Incitec and Pivot got together that is the end of it as far as farmers are concerned. These blokes are so bloody arrogant and they are obviously monopolists.’ There you go. But he did say there was credit—and he is a reseller.

**Senator NASH**—As well as that specific period of September to December that we were talking about before, it may well be much easier, in hindsight, to also look over the financial year at how much fertiliser you were not able to supply. By the end of July most of the crop is going to be in. You are going to have a fair idea of what has been used.

**Mr Whiteside**—In terms of not being able to supply, there is no farmer who has not been able to get fertiliser to sow their crop. They may be farmers who did not get fertiliser earlier at a lower price, but we have certainly had product to meet the demand in this marketplace and always did have. In fact, as a consequence of the season coming—

**CHAIR**—You just withheld it from the market, for one reason or another—along with the export business that you carried on, and even demurrage on boats. As you say, you could supply and did supply, but you just put that little inconvenient bump in the market which you then backed up with a letter that said, ‘Tell them the price of grain has gone up and they can afford it.’ I am amazed that your letter writers would be so stupid as to try and ram that down a farmer’s neck. That is what you tried to ram down farmers’ necks—‘Tell them the price of grain has gone up and they can afford it. We’re on the merry-go-round for the global parity, good luck to you.’ And, because there is a monopoly, there is not a damn thing we can do about it except cop it.

**Senator NASH**—With the global parity, that is exactly it, isn’t it? If, as you have just said, you have supplied 100 per cent of what the market needed, the whole issue of supply and demand, as you refer to, and global forces, which I completely understand, do not apply to Australia. We have everything we needed this financial year in what, as you said, was a very high demand year. I understand all the principles, but it is a bit hard for farmers to cop being

told: 'There's such enormous demand that the price has absolutely gone through the roof, but, by the way, we had absolutely everything we needed to give you in your country. Just cop it.' It is a bit tough.

**Mr Whiteside**—We had the product; we just did not have it six months earlier than we were forecast that the farmer would want to pick it up.

**Senator NASH**—But if they knew they could get it at a reasonable price you would not have had this issue.

**CHAIR**—It would not have happened.

**Senator NASH**—They are not going to spread it in September.

**CHAIR**—You put the price signal out there, with the bloke that is just too angry to talk. You put the price signal out there and everyone panicked. You panicked the market.

**Mr Whiteside**—With respect, we did not put the price signal out. The signal was out there because the market is quite transparent.

**CHAIR**—No-one's to blame—it's just that you happen to produce 70 per cent of Australia's production! I realise you had nothing to do with it—you are purer than the driven snow! What percentage of the market share have you got in the eastern states?

**Mr Rintel**—At a retail level we have 58 per cent.

**Senator NASH**—Can you break that down for us by single DAP and MAP?

**Mr Rintel**—Yes, we can.

**Senator NASH**—But not now, I am guessing.

**Mr Rintel**—If you want specific numbers it would be best if—

**Senator NASH**—I would like specific numbers if you could supply those to the committee.

**Mr Rintel**—Yes.

**Senator NASH**—That would be good; thank you. Can you supply the specific drop—73 to 58.5 is obviously your overall drop—

**Mr Rintel**—Correct.

**Senator NASH**—in those three categories, what your previous market share was and what it has dropped to in each of them? It may well have risen in some—who knows?—if that is the overall figure, but please supply a breakdown in each of those three categories, if that is clear.

**CHAIR**—Would you accept that it is probably cheaper in the cost chain to supply super DAP and MAP from Townsville than somewhere overseas?

**Mr Whiteside**—It is cheaper to charter a vessel and move product from Townsville to Geelong than it is from Tampa to Geelong, if that is what you are asking.

**CHAIR**—What would be the difference in the cost?

**Mr Whiteside**—Around—

**CHAIR**—100 bucks?

**Mr Whiteside**—No, less than that—\$50 or \$40.

**Senator NASH**—That is from Tampa?

**Mr Whiteside**—Freight rates from Tampa would average around \$100 and freight rates from Townsville would average around \$60.

**Senator NASH**—When you are purchasing from overseas, what are the freight rates? Pull the cost for, say, a couple of overseas ports to here, roughly.

**Mr Whiteside**—A vessel from Tampa to two ports in east coast Australia would be around \$100. For a shipment of urea from Bahrain it would be \$80, perhaps.

**Senator NASH**—So if you have \$100 a tonne added to your freight cost when you are importing and providing here—sorry; I might not have a particularly good maths brain—obviously you are going to be 100 bucks behind the eight ball as opposed to with the stuff you are producing locally. Doesn't having to import have an enormous impact as opposed to selling product that is domestically produced?

**Mr Whiteside**—We make a higher margin by selling produce domestically than we do export for that reason. And as freight rates go up the footprint of your plant becomes smaller.

**Senator NASH**—What is the comparison for you between—and that would seem quite obvious—storing your domestically produced product as opposed to exporting that and then having to pay 100 bucks extra to bring some back in again?

**Mr Whiteside**—It is not quite as simple as that. You can get a freight premium by putting the product into export markets alongside another supplier from another part of the world.

**Senator NASH**—Can you explain that for me?

**Mr Whiteside**—The difference for us in selling a product domestically and exporting is around \$30 or \$40 a tonne. It is \$30 or \$40 a tonne more profitable for us to leave the product here and sell it in the domestic market.

**Senator NASH**—So would it not be more profitable for you to look at storage, knowing that you have a market that will absorb everything that you produce?

**Mr Whiteside**—To the extent that we have storage and to the extent that we are willing to put the product in the shed and leave it for a long time. These all contain nitrogen; they all suck up water—they are hygroscopic—so the longer you leave the product, particularly DAP, the harder it is to handle because it gets sticky and it physically deteriorates. We do not believe that storing the product for a long period of time is a sensible thing to do. We also have limited storage capabilities.

**Senator NASH**—What is the longest time that an agent or a dealer might have product in their shed?

**Mr Whiteside**—They, or a farmer, or we might even carry product from one season over to another at times. That can obviously cause problems. If a farmer has got product in a silo, they actually store it in a more suitable container than a big open shed, which is what our storage is. In many cases, product that farmers store on farms survives the season much better than it does in our big sheds.

**Senator STERLE**—Not only that but your import freight rates are different from your export freight rates.

**Mr Whiteside**—Yes, depending on the market.

**CHAIR**—To go to DAP and MAP, when did your plant at Phosphate Hill go into full production of DAP and MAP?

**Mr Whiteside**—We brought the plant in 2006 but it was commissioned in 2000.

**CHAIR**—Why are we a large importer of MAP and not so much of DAP?

**Mr Whiteside**—We tend to make more DAP than MAP at the plant because it—

**CHAIR**—Do you have to use up a nitrogen source?

**Mr Whiteside**—It is a combination of getting the balance between ammonia production and the ore itself. We make more tonnes if we make more DAP than MAP.

**CHAIR**—So DAP is your main—

**Mr Whiteside**—It is about 65 per cent to 35 per cent.

**CHAIR**—And you are going to give us, on notice, why you put that up by \$197 last week as opposed to the week before or the week ahead and the differential in MAP?

**Mr Whiteside**—We will, and the answer will relate to the movement in import parity prices.

**CHAIR**—If that is the case, what happened to MAP? You are not telling me that—

**Mr Whiteside**—Sorry. Are you suggesting that DAP went up and MAP did not?

**CHAIR**—That is exactly what I am suggesting.

**Mr Whiteside**—I am not aware of that.

**Mr Rintel**—As was mentioned earlier, the price change reflected the new cost of the DAP that we were receiving. We had MAP in our sheds.

**CHAIR**—You have been pulling our legs. You are well groomed, and I congratulate Incitec Pivot, by the way, because you are the only ones who would turn up. The rest of them told us to go and bite ourselves. So we are very grateful for the fact that you have turned up. As you can see, we are very angry about the treatment that we have had. MAP, just so that you know, went up ages ago by 1,600 bucks. DAP went up last week by \$197. If you say that it is global parity, please explain.

**Mr Rintel**—It reflects the difference in timing of when we receive the product. We received DAP earlier in the season than what we did MAP and so, consequently, there is a price differential between the two.

**CHAIR**—You have not received it from domestic production; it is imported, is it?

**Mr Rintel**—It could be a mix of both.

**Mr Whiteside**—In the case of MAP, deliveries of MAP late in the season were all imported product.

**CHAIR**—You realise that we who have an interest to declare, like your shareholders, think that you are well and truly giving us one up the back passage? We really feel aggrieved about this. You have treated us like shit. That is how we feel in the bush, and your agents are so angry you wouldn't believe it. There is no question that, like consolidated retailing, you have consolidated the market to the point where you can be very arrogant and tell us to do that and there is nothing we can do about it. So we are very, very disappointed. But we are very grateful that you turned up. You have been well groomed; whoever exercised you—that bloke down the back there—has done a good job to get your words right. We have a long way to go because there are serious things that we are going to deal with in the committee—issues of impropriety, standover tactics and intimidation. We are very unhappy about it. Thank you.

**Proceedings suspended from 12.30 pm to 1.35 pm**

[13.35 pm]

**MACKEE, Mrs Carol Joy, Director, Herbert Branch, Australian Canefarmers Association**

**CHAIR**—I welcome Mrs Mackee, representing the Australian Canefarmers Association, Herbert River Branch. Would you like to give a brief opening statement, after which we will ask you some very polite questions?

**Mrs Mackee**—Escalating costs are forcing farmers out of business. I have just got an update on fertiliser prices and, since Friday, some of the fertiliser has gone up \$200. The way things are going, it is forcing farmers to sell out to the managed investment schemes, because it is just too hard for them.

**CHAIR**—The fertiliser that went up \$200—is that DAP?

**Mrs Mackee**—The planting mix went up from \$1,205.31 to \$1,416.06 per tonne. The DAP went up from \$1,556.96 to \$1,790.21.

**CHAIR**—How many dollars is that? Is someone able to do that calculation?

**Mrs Mackee**—That is just per tonne.

**CHAIR**—Yes, I know. You say the price of DAP went up last week?

**Mrs Mackee**—DAP—GF, which is 66S; and GF 542, which is 300S. They told me urea will be going up as soon as the next shipload comes in.

**CHAIR**—Who do you buy from, for a start? Do you buy from Incitec Pivot?

**Mrs Mackee**—We buy from a company in town, which is Grow Force. We also have three other fertiliser depots in the town of Ingham.

**CHAIR**—And whose fertiliser do they all sell?

**Mrs Mackee**—Incitec Pivot is the main fertiliser. There is Hi Fert—I do not have Hi Fert's cost here, mainly Incitec Pivot's.

**Senator STERLE**—I did read your submission on the plane coming over yesterday. Would it be fair to say, with the rising cost of fuel and the poor dollar return for sugar, that the exorbitant rises in fertiliser costs will be the final straw?

**Mrs Mackee**—I think it is worse than the final straw. I have figures here that were quoted to me by one fertiliser company on the amount of money that is actually owing to them from last year and also on the amount of money that is now owing to them from this year. The amount of money still owing from last year is \$1,243,752. The amount owing so far this year is

\$122,342.62. Another fertiliser company tells me that they have half a million dollars owing on last year's money that was spent on fertiliser.

**Senator STERLE**—Who owes that \$1 million from last year?

**Mrs Mackee**—All the farmers owe it. They cannot afford to pay their bills. With sugar cane, of course, you put the crop in the ground, but you do not get the returns back for two years. By the time you put your input costs in, you get paid on monthly instalments once the cane is cut. The amount of money that was owing in December 2007 is \$3 million. As the money came in monthly, farmers were trying to pay their debts off.

**Senator STERLE**—Please forgive my ignorance—I must confess to not knowing anything about growing sugar cane—but how many hectares is a normal sugarcane farm?

**Mrs Mackee**—We do not go by hectares. An average farm would produce around 15,000 tonnes. Average production is around 5,000 to 15,000 tonnes. The smaller farmers, who have around 2,000, 3,000 or 4,000 tonnes, actually go out to work somewhere else and have to support the farm.

**Senator STERLE**—How many tonnes of fertiliser would a normal sized sugarcane farm use each year?

**Mrs Mackee**—It depends on what they use. An average sized farm would use around 50 tonnes of urea. We personally went for liquid fertiliser last year. We tried to save costs. We used VRM, which has microbes in it. It is a more natural product with some fertiliser in it. You could say we are trying to be better farmers.

**Senator STERLE**—I know from the evidence we have taken this morning that the price of fertiliser has increased ridiculously.

**Mrs Mackee**—One account would be about \$73,000 for the year. That would be for an average farm.

**Senator STERLE**—You said you are looking at alternative or natural fertilisers. Would \$73,000 be enough? It rolls off the tongue very easily but it is a lot of money. If the fertiliser price was reduced would that save the family plantation in Queensland?

**Mrs Mackee**—The family plantations are the ones that will still be here because the wives go out to work somewhere else and they still have the family farm. It is the medium sized and larger farms that are going. By the end of this year 3½ thousand hectares will be changed over to trees. The best prime agricultural land is being turned over to managed investment schemes.

**Senator STERLE**—I would like to ask you some further questions on that, but I do not think this committee is appropriate for that line of questioning. But I get the picture. Is it just in your area, or elsewhere in Queensland?

**Mrs Mackee**—It is in our area and to the north. It is not so much down in the Burdekin area. We all have the same constraints. We are all struggling with our fertiliser bills.

**Senator STERLE**—Regardless of that the sugar market is in decline?

**Mrs Mackee**—The point is that if you owe the bank money you are no longer viable.

**Senator STERLE**—I fully understand that. Thank you.

**CHAIR**—You say the district owes more than a million dollars for fertiliser. Do they owe that to a fertiliser company or to a reseller?

**Mrs Mackee**—They are resellers. We call them depots. You go to the depot and pick up so many tonnes and it is charged out.

**CHAIR**—But who sends you the bill—the fertiliser company or the reseller?

**Mrs Mackee**—The fertiliser depot. They might get Incitec Pivot fertiliser or Grow Force fertiliser. I live 32 kilometres out of town and we have a depot in our area. We just go and pick it up and it is charged out at the end of the month.

**CHAIR**—So the money is not owed to a billion-dollar fertiliser company—it is owed to a small business?

**Mrs Mackee**—I think they are in conjunction. It could be CRT or one of those companies that actually own that depot. They keep changing their name. One of them was Ingham Farm Centre but it has now gone to Grow Force.

**Senator NASH**—I am interested in liquid fertiliser. What have you changed doing?

**Mrs Mackee**—We have put microbes into our soil to improve our soil. We found that liquid fertiliser last year was a lot cheaper than buying urea or DAP or whatever we use. We use One Shot here. I looked at my account and we have saved around \$30,000.

**Senator NASH**—How do you apply it?

**Mrs Mackee**—You have to get someone to come in and apply it. This year we may have to rethink it because they are going to charge, I think, 61c a litre for putting it out. It is a bit expensive this year. I am not too sure whether that is correct, but I know the cost has gone up.

**Senator NASH**—I am a farmer from central New South Wales and the financial impact on the district up there, from what you are saying, has obviously been significant. Have you had any feedback from your banks around your farming district on how comfortable they are feeling with where farmers are at financially at the moment?

**Mrs Mackee**—Unfortunately, the bank managers do not seem to live in town. I deal through Westpac, and the Westpac manager is actually located in Innisfail. He only comes down every now and again, and I would perhaps only see him once a year. I cannot make comments, though, for other banks. I do know ANZ has a woman manager here, but they are not like the old managers.

**Senator NASH**—This is probably a difficult question, but could you give a rough figure of how many of the farmers in your district are at the end of their tether and thinking about selling up and getting out?

**Mrs Mackee**—When I look at the real estate, there are several farms for sale. Usually in a good year you might only see one or two. I was quite surprised. I went into one of the websites to have a look and saw quite a few farms for sale in different areas. Mainly what we see is they are selling out to trees; they are not selling to other farmers. Other farmers, I think, since 1997 have not seen a real income; therefore, they cannot go out and buy the neighbour's farm. I think the choice is made where they are getting out and they just sell to trees. Sometimes it is through ill health; sometimes it is just the fact of age; mainly they are sick and tired of working for everybody else and not earning any money for themselves.

**Senator NASH**—Is there anything in particular that you would like to see done that you think would help the overall rural situation in your district?

**Mrs Mackee**—The only thing that I can see is that we have to have a better income stream than sugar. We should diversify and put up a new mill, whether we look at paper or biodegradable plastic bags or we look at ethanol. Ethanol is a clean, green fuel.

**Senator NASH**—Do you think there is any role for government in any recovery process?

**Mrs Mackee**—We have asked government to look at value adding or support over the last 11 years, without any results. It is quite easy to come in and say, 'You should do this or you should do that,' but the farmers are so cash-strapped now that they jolly well cannot do anything for themselves. At the moment we are trying to get a new mill for our area here. Just for the feasibility study alone, we are going out asking farmers to put in money to do the feasibility study without raising money to get a new mill. Our problem is we cannot negotiate with a monopoly mill. We have a lot of trouble even getting as much as 5c for molasses.

**Senator STERLE**—What would a new mill cost?

**Mrs Mackee**—Two hundred million dollars, we were told the other night. We do go into negotiation with CSR but, unfortunately, they are very unbending. They are hell-bent on giving money to their shareholders. They have let the mills run down, and that was only brought out into the open in the CSR shareholders meeting last week, where I believe their shares dropped 14 per cent.

**Senator NASH**—Monopolies are interesting to deal with, aren't they?

**Mrs Mackee**—They had a big collapse of a tank in Pioneer at Burdekin. All the mills are the same, all limping along.

**Senator NASH**—Thank you.

**CHAIR**—Who are your suppliers up there? Is it Hi Fert and Incitec Pivot?

**Mrs Mackee**—Yes, and Grow Force. They have their own g-Grow Force bags.

**CHAIR**—I will just read you a little statement. See what you make of this. This has come from Incitec Pivot, and the authors are probably sitting in the room. No, they are not. They are shaking their heads. It reads:

IPL recognises—

they are very concerned for your wellbeing, I might say—

the concerns of many in the agricultural community about the local impact of these global events. IPL has been pro-active in developing better ways of doing business with its own customers, its business partners, such as new initiatives to provide greater certainty regarding pricing.

And you say they have just given you another price increase with little notice.

**Mrs Mackee**—That is right, on Friday.

**CHAIR**—So there you go—they are giving you greater certainty for pricing by giving you 24 hours notice.

**Mrs Mackee**—I would hardly believe that.

**CHAIR**—It goes on:

IPL has also been responsive in dealing with stock shortages, including allocating available product on an equitable basis.

Despite the impact of the global factors described above and the challenges encountered during 2007/2008, the fertiliser industry in Australia is highly competitive.

Did you realise that? It goes on:

There are many suppliers, ranging from large players through to traders—

by the way, the traders get their fertiliser to trade from the monopoly provider, which is Incitec Pivot for 70 per cent of it—

as well as new entrants who have taken advantage of readily available import infrastructure and low barriers to entry. The healthy state of competition in the industry means that it cannot be described as monopolistic, or involving any cartel conduct.

Are you relieved to hear those words coming out of Incitec Pivot? They think they are purer than the driven snow.

**Mrs Mackee**—I am actually a shareholder of Incitec Pivot and I am ashamed of them.

**CHAIR**—We are very grateful for your input. Is there anything else that you would like to add?

**Mrs Mackee**—I did speak to a fellow the other day over the chemicals, and he told me how very hard it is to deal with people in China. He said that you can put in an order for a container load of chemicals and, if you do not pay within four hours, the next time you ring up they put the price up and say: 'It's like this. You wear the price. If you do not want to wear the price, we'll sell it to someone else.' So it seems to me the whole system is corrupt.

**CHAIR**—It seems to me that is what you call market power. But you will be pleased to know that Incitec Pivot does not think there is a monopoly in fertiliser. I do not know what they think about chemical. They will probably get into that next. So there you go. Thanks very much for your time and trouble.

**Mrs Mackee**—Thank you very much.

**CHAIR**—No worries.

[1.56 pm]

**MAMMINO, Mr Mark Salvatore, Director and Deputy Chairman, Canegrowers Isis Ltd**

**McCARTHY, Mr Geoffrey Gregory, Director, Canegrowers Isis Ltd**

**STANLEY, Mr Wayne Maurice, Manager/Company Secretary, Canegrowers Isis Ltd**

*Evidence was taken via teleconference—*

**CHAIR**—If you would like to make an opening statement, we would be delighted to hear it.

**Mr McCarthy**—Fertiliser prices are having a huge impact on the sugar industry. The price rises are announced weekly here, with dealers foreshadowing a further \$400 per tonne rise soon. This is making our industry unviable. Global supply, demand and stock levels are blamed for the high fertiliser prices. While these factors influence the price of fertiliser, the main barrier to cheaper fertiliser in Queensland is a lack of direct competition in the marketplace. Incitec Pivot Pty Ltd currently has 75 per cent of the Queensland market. The only other supplier in our area is Hi Fert, whose prices follow the Incitec price rises upwards. Incitec merged with most of its competitors, such as Pivot and Summit, in recent years. Fertiliser prices immediately rose substantially.

In trying to reduce the cost of fertiliser to growers, Canegrowers Isis was willing last year to organise the district's fertiliser requirements and to place bulk purchases through August to November. Fertiliser companies have a special pricing arrangement, or SPA, for bulk orders. They would know exactly the growers' requirements and the time for delivery and they would be dealing with only one purchaser, and that would have been Canegrowers Isis. Incitec Pivot tried to ignore our invitation to discuss the options available to reduce the cost of fertiliser to our members but eventually agreed to address us on 2 August 2007 at a meeting, telling us that growers needed to evaluate a range of planting and ratoon fertiliser options to determine the most cost-effective method of applying the targeted nutrients. Incitec's advice, senators, was no help at all. At current prices, no grower can afford to overfertilise and growers apply their fertiliser efficiently. Soil samples are taken and growers follow BSES—which is the sugar industry's RD&E advisory group—recommendations.

Our submission also details accounts of meetings with Hi Fert last year, where it was claimed that they were looking to increase market share. Canegrowers Isis pursued a deal locally for a bulk purchase of 3,500 tonnes of cane fertiliser. While showing interest, Hi Fert reps expressed concern about the consequences or repercussions a deal could have on their business with Incitec. Being a small player, Hi Fert did not want a price war with Incitec. The pressure got to Hi Fert, and they withdrew from discussions with Canegrowers Isis. This message was delivered to us by the local dealer. The reason for their withdrawal, we suggest, is that a deal would lower the overall prices of fertiliser, resulting in less revenue for both fertiliser companies. Following these mergers of Incitec Pivot with others, the price of fertiliser blends for sugar cane have trebled in the last three years. When we complain to Incitec, their response is always the same: it is the dealers who have the margins to negotiate with and we should talk to the dealers.

However, when we do speak to the local dealers, their margins are so small that any discount available for bulk orders would only deliver very small price reductions.

There is strong competition amongst local dealers for our business; however, there is no competition between the supply companies. We believe this constitutes a market failure. There is no transparency in the pricing of fertiliser. Incitec imports approximately 50 per cent of their fertiliser. Incitec, in our opinion, works on a percentage mark-up for both the imported and domestically produced fertiliser. For discussion purposes, when a raw product such as fertiliser costs \$300 a tonne, a 40 per cent mark-up will result in a \$120 price rise and a price to the dealer of \$420 a tonne. If the raw product, however, costs \$900 a tonne, the same 40 per cent mark-up adds \$360 to the price to the dealer and the price becomes \$1,260 per tonne. Our concern is that growers must absorb not only a 300 per cent rise in raw material costs but also a \$240 rise in the mark-up applied by Incitec.

The increase in mark-up applied by the supplier does not correlate with any significant increase in actual costs, so it translates directly into large profit rises. One only has to look at Incitec's share price to see that its meteoric rise mirrors the rise in fertiliser prices. This can only happen because there is no real competition and the supplier Incitec can do this with immunity. We do not have access to Incitec's accounts. We do ask that the senate inquiry fully investigate its books to ascertain how much profit is arising as a direct result of the lack of competition. We suggest that the government regulate fertiliser prices if necessary, and mark-ups, to ensure food security is not jeopardised and export dependent industries like sugar can compete fairly with countries such as Brazil.

Isis cane growers grow other crops, such as soya beans, peanuts, navy beans, wheat and barley, in a cane rotation. It is estimated by the Queensland DPI that prices for sugar will drop by 30 per cent this year. We have developed a table showing that prices for grain crops such as soya bean are at very high levels of \$700 a tonne and are stable. When compared to prices for fertiliser such as DAP, the fertiliser price has risen substantially from roughly \$800 a tonne last year to \$1,700 a tonne now, today, this year. Incitec price their fertiliser according to what they think the market will bear. The prices for grains over the last 12 months have been at all-time highs. We believe they set the fertiliser prices accordingly.

Fertiliser prices have been allowed to skyrocket out of all proportion to any other commodity. This has happened in a short time and is not self-correcting. We realise governments are loath to step in to regulate industries. However, Canegrowers Isis argues that, due to the market failure in the fertiliser industry, the government has little or no choice. The fertiliser industry is not governed by normal commercial practices. It is a distorted market, so there is a need for intervention by government to resolve this matter quickly. We look to the Senate to resolve the issue of unsustainable fertiliser prices, as it will have a large bearing on the amount of sugar cane planted on Queensland farms over the next three months. Thank you.

**CHAIR**—You will be pleased to know that Incitec Pivot does not agree with you on any of that. This is what they say in their submission, just so you know:

Historically, the majority of Australian farmers have ordered fertiliser from distributors on a just-in-time basis, and have not placed firm orders until immediately prior to a season.

I do not agree with that, anyhow, because we always pre-order. The whole district does, where I come from. The submission goes on:

During 2007/2008 this meant that farmers were exposed to both increasing global prices and, in turn, unseasonal demand led to shortages in stocks.

That was a manipulation of the market, in my book, by putting a price signal in the market, which farmers, being alert to price rises, then tried to avoid by ordering early. It goes on:

IPL recognises the concerns of many in the agricultural community about the local impact of these global events.

So they are feeling sorry for you. It goes on:

IPL has been pro-active in developing better ways of doing business with its own customers, its business partners, such as new initiatives to provide greater certainty regarding pricing.

They are prepared to give you up to two days notice these days before they put the price up. By the way, that is in response to the global market; it has nothing to do with supply or demand. That is evidence we have taken this morning. The submission continues:

IPL has also been responsive in dealing with stock shortages, including allocating available product on an equitable basis.

Despite the impact of the global factors described above and the challenges encountered during 2007/2008, the fertiliser industry in Australia is highly competitive.

This is Incitec Pivot talking here. It goes on:

There are many suppliers, ranging from large players through to traders, as well as new entrants who have taken advantage of readily available import infrastructure and low barriers to entry. The healthy state of competition in the industry means that it cannot be described as monopolistic, or involving any cartel conduct.

Would you like to comment on that? That is the view of Incitec Pivot.

**Mr McCarthy**—Obviously from our submission, we disagree with them. I would have to say that that sounds like rubbish to me from where I sit. The industry here is wholly and solely, in my view and in our view, dominated by IPL. We can only comment on our circumstances here in this part of Australia. I think they are the major player. The other company that does exist here is only small and, as we pointed out, I think they are frightened of any repercussions from a potential price war, so they just follow the Incitec price. That seems to be the way it works here. I actually have been told that the Hi Fert company accesses quite a deal of its raw material from Incitec, so I imagine there are ramifications for Hi Fert if it does not toe the line. We feel that it is highly monopolistic and we have little choice but to accept the prices that are dished up to us weekly on a rising basis.

**Mr Stanley**—Senator Heffernan, in response to your question about farmers being last-minute buyers, that probably is true on the basis that farmers do not have the capacity to pre-buy very far ahead of the time to fertilise. But in July last year Canegrowers Isis approached Incitec about a bulk purchase arrangement whereby we could have placed an order for 3,800 tonnes for the

months of August through to November. That was on a scheduled delivery basis. We were trying to organise that to enable savings by the fertiliser company in the hope that those savings would be passed on in the price. We approached Incitec about that last year and they were not interested. Did they come to us in January or February this year to do the same thing? No, they did not. So I would say that, whilst they can claim that we are last-minute buyers and they had to import a certain amount of fertiliser, there is not that much difference in the amount of fertiliser that is used by farmers from year to year, so they know very well what the market is going to be and they plan that way and release their prices, which are always much increased, closer to the time of supply.

**CHAIR**—So in the lead-up to November, when they say they got their minds around their supply price situation, from as early as August your group could not get Incitec Pivot to give you any indication of supply and price?

**Mr Stanley**—No, not for the forthcoming year. They were telling us what the price was for that year. But if they are concerned about not knowing beforehand what our requirements are, they can come and talk to us as much as we can go and talk to them.

**Senator NASH**—It is a very interesting point you raise, because part of what Incitec put forward when they appeared this morning was the fact that they faced unprecedented demand towards the end of last year. But you are saying that you spoke to them in July or August?

**Mr Stanley**—Yes. We spoke to them as early as 2 July and asked them to come and meet with us. Initially they ignored our request but then, through numerous phone calls, we got them to meet with us on 2 August.

**Senator NASH**—So they had ample opportunity certainly in your region to get a very good handle on what the requirements would be for your particular area?

**Mr Stanley**—Yes.

**CHAIR**—This is another of the interesting vagaries of the fertiliser industry. Given that the Townsville-Mount Isa operation is up around a million tonnes of DAP and MAP, is it curious to your growers that you cannot actually take a truck and load it at the plant but that it all goes on rail and then on a ship? Do you think that it would make sense to be able to have land transport out of the works?

**Mr McCarthy**—That is an interesting concept. I had not actually considered the transportation issues. I was not actually aware that they shipped it. It sort of makes sense when you think about it. There is probably no reason why it could not be moved by train all the way down the coast.

**CHAIR**—We have guys in northern New South Wales who, if they were able to, would send a road train up there to save bringing it down the coast into another port, unloading it and all of the triple handling. But, of course, if you are a monopolistic supplier—by the way, the word ‘monopoly’ for Incitec Pivot is forbidden—that is the way you tie up the market and tie up your customers. You will be pleased to know that in their closing statement they said:

IPL is confident that its actions have assisted in easing the burden on Australian farmers in dealing with the local impact of unprecedented global supply and demand conditions.

So I would hate to see them if they were deliberately trying to root us out!

**Mr McCarthy**—I think that our submission, if you put it in context with theirs, makes a mockery of their statement that they are looking at new and innovative ways of easing the burden. I cannot remember the exact words that they used, but we have offered them a new and innovative way of dealing with all the growers in our district and they basically rejected that out of hand. They were not interested at all. They told us to talk to the dealers. It just makes a joke of it, I think. In reality, what they are saying and what they are doing do not really match up.

**Mr Stanley**—To take up that suggestion about buying direct from the mine: faced with the prospect of very high fertiliser prices, Canegrowers, the organisation, has been looking at importing urea, which is a straight fertiliser. I guess these would be straights that would be coming from Mount Isa but, if the proposal by Canegrowers to import fertiliser comes off, there will be a two-port delivery. Those will be Townsville and Brisbane. The only way that we can service each of the cane-growing areas outside of those two ports is by road transport, and that is being looked at very seriously with regard to the way that we would distribute any imported fertiliser that Canegrowers does undertake. So, if we were offered the opportunity to buy straights from Mount Isa, regardless of whether it would be taken up by Isis Canegrowers or whether it would be taken up by farmers closer to Mount Isa, I think that should be a real proposal put forward at least for consideration.

**CHAIR**—We have taken evidence from various proponents of import to try to bust what most people see as monopolistic cartel behaviour. We have taken evidence that they have had difficulty confirming prior to the shipment the availability of storage and unloading facilities at port. Have you blokes looked at the capacity to import, store and unload?

**Mr Stanley**—Yes, we have. I guess the sugar industry is in a fortunate position that they have bulk sugar terminals up and down the coastline, and certainly arrangements with Queensland Sugar Ltd could make available storage capacity in the sugar terminals if it were outside of the normal crushing season.

**CHAIR**—If we were able to identify people who were willing to have a crack at this, they might form some sort of a tag team with your facilities. A little bit of competition would not hurt.

**Mr Stanley**—It certainly would not hurt but, as I said, it would need to be outside of the normal crushing season, when those sugar sheds are filled with sugar waiting for export. The Canegrowers importation idea was to import it in one-tonne bulk bags. They would have a two-port discharge, they would be loaded directly onto semitrailers or B-doubles and they would be directly dispatched to the districts where the orders have come from.

**CHAIR**—There you go.

**Senator NASH**—At what point last year, in general, did you become aware that the fertiliser prices were going to start to increase?

**Mr McCarthy**—I think it has been increasing quietly for some time. I cannot remember an exact point at which it was to leap ahead. I cannot put a date on it.

**Senator NASH**—That is fine. When you were discussing the idea of putting in the bulk order to try to get it at a cheaper rate, were you concerned at that point that the prices were going to go up? Was that any part of your reckoning as you were determining to try to get this bulk deal together? Was it purely and simply to try to get a better price or were you concerned about possible rises?

**Mr Mammino**—Fertiliser prices have probably been generally rising for the last three years. It was probably around February or March of last year that we realised that they were rising to a limit where growers were going to struggle to justify the costs of using fertiliser to meet crop requirements. The cane growers industry as a whole did look last year at importing urea. Our local district took the view that we wanted to still try to support our local dealers, which would be impacted by us bringing in urea direct. That is when we made the decision—I think it was back in June or July last year—to approach both Incitec and Hi Fert to try to organise bulk deals. We thought it would benefit those two companies and our own growers by offering security of business to Incitec and guaranteeing a price for our growers.

**Senator NASH**—It seems like a very sensible idea to me.

**CHAIR**—It seems that you had endemic loyalty to your supplier and wanted to keep them in business.

**Mr Mammino**—Not so much to our supplier but to our local dealers—not IPL.

**CHAIR**—I should have said ‘dealers’. But the supplier was quite happy to play the global market on you.

**Mr Mammino**—That is right. The reason we wanted to go that way was that historically the suppliers, like IPL, will offer a SPA to the larger growers, who use larger amounts, while the little growers pay anywhere from \$80 to \$100 a tonne more than the larger growers. Our aim was to try and have all our growers paying the lower price. I think that is where Incitec and Hi Fert saw a potential loss of revenue and backed out of the proposed deal on us.

**CHAIR**—Incitec Pivot were prepared to come and give us evidence but the rest of them were not. In their opening statement this morning, Incitec Pivot blamed all of the anguish that has occurred on the dealers. They said they had a clean set of hands on the issue. That is what you call ‘passing the buck’. It would be fair to say—and I presume it is reflected up your way—that the dealers found themselves in a very difficult situation. They had loyal customers but they were seriously frustrated by the antics of the provider—in your case, Incitec Pivot.

**Mr Mammino**—Dealers have a margin but, because there is competition among dealers here, a lot of them will claim they make only \$5 to \$10 profit from a tonne of fertiliser. There is nothing left in it for the dealers. Their hands are pretty well tied, so there is not a lot we can do for them.

**Mr McCarthy**—I feel some sympathy for the dealers. They do provide a service to us. Often they are business people within our local community and they provide other services besides fertiliser distribution. I think most people would agree with me that they are caught by this cartel type arrangement themselves. They are the ones who will pay a price in that they will have lower turnover because people will be using fewer tonnes of fertiliser. I do not think their margins are going up with the fertiliser price.

**CHAIR**—Do you have any correspondence that you or your dealers up there have had with Incitec Pivot that may assist or guide this committee? Do you have any paperwork or letters? We have had some interesting paperwork in New South Wales. Has there been any correspondence from Incitec Pivot to the dealers up there giving them a bit of instruction on how to placate the farmers or talk their way out of it?

**Mr Stanley**—We do not have any of that type of paperwork in our possession, but I am prepared to ask our local dealers, who have been fairly generous with us in the past. The Canegrowers deal last year was with one particular dealer, and I know that the other dealer was immediately very upset with us. But we felt that the dealer we chose to deal with could actually get product from either Hi Fert or Incitec, whereas the other dealer was simply an IPL dealer. We are prepared to look out for any paperwork that might assist the inquiry but we do not have any in our possession.

**CHAIR**—Do you think there was any priority or preference given by Incitec Pivot to particular dealers or agents in supply? There is certainly evidence of that in New South Wales when fertiliser was allegedly in short supply. Bear in mind that, while it was in short supply, they were madly exporting—according to the documentation—through the port of Townsville. Do you think there is evidence of, for whatever reason, some preference being given to some agents and dealers and not others in supply?

**Mr Stanley**—No, I have not heard that at all in our local area.

**Senator STERLE**—Mr McCarthy, Queensland DPI estimate a 30 per cent reduction in sugar prices for next year. Is that correct?

**Mr McCarthy**—That is what appeared in the July edition of *Australian Canegrower* magazine. That is what has been reported there.

**Senator STERLE**—We had a submission from another group of cane growers before your submission. Apart from the exorbitant rise in the cost of fertiliser, how is the sugar industry in your part of the world?

**Mr McCarthy**—That is a good question. Are you wanting to know the likely impact of the rises of fertiliser price on the industry?

**Senator STERLE**—Yes, please.

**Mr McCarthy**—I think it will have a devastating impact on the amount of land that gets planted. In my own business, our average annual plantings are about 30 hectares out of a total of 120 hectares of cane. The other 30 left in the property is break crops. Instead of planting 30

hectares this year, I intend, sadly, to plant three hectares. We are also looking at the possibility of standing over a crop. Sugar cane—I do not know if you are aware—is a crop that you can actually leave an extra year before you have to harvest it, if it is sound. Any crops that are a little immature and low in sugar content and are sound towards the end of the crushing season may be stood over to the next season because, by the time I have paid for the harvesting and then provided fertiliser for the next crop, I will be out of pocket. So those are two of the things that we are looking at.

If I continue to do that next year, I do not know how the business will function longer term. We can only grow a limited area of break crops like legumes. The legumes, like soya beans and peanuts, by the way, we grow to try and alleviate the demand for nitrogen fertiliser as well as provide us with an alternative income on our fallow blocks, our break blocks. But if I continue to do that and only plant a small area, our farm production will be down drastically within the next two years. If that happens across the whole district, I would say there is a \$70 million investment in a sugar mill just out of town here that is going to struggle to survive. It is going to have a really, really major impact on this district. I would suggest it could be similar up and down the Queensland coast.

**Senator STERLE**—Thank you. I am the only one on this committee at the moment who has no farming background, so please excuse my ignorance if the question seems very simplistic, but can you diversify into other crops? Is it as simple as that?

**Mr McCarthy**—We have diversified already. That is what I was alluding to. One-fifth of our farm has been diverted out of cane into legume crops. That is the 30 hectares that would have been planted this year, but only three of that is going to be planted now. The issue for large-scale diversification is that there are not long-term proven systems in place that we can rely on that will replace the 15,000 hectares in the Isis district that currently grow cane. If everyone plants pumpkins or watermelons or something like that, I dare say the price of them will drop dramatically. So the answer is, yes, there are limited prospects for diversification. We are already doing that. We are also looking at trying to use some non-traditional systems to replace some of the fertilisers, like the legumes combined with mill mud to alleviate the demand for fertiliser. But there is nothing certain about the newer system. It is fraught with experimentation and the perils that go with that.

**Senator STERLE**—Yes, I fully understand and appreciate that. It really is very hard to explain to Canegrowers Isis how the cost of fertiliser can balloon—and you are frustrated with trying to deal direct with the company and with it not wanting to deal with you. But I am trying to put it in the perspective of the other cane growers' submission, according to which the sky has already collapsed—the increase in the price of fertiliser was the final death knell. It does not sound like you guys are hearing your final death knell, but we do appreciate that it is getting very hard up there. Would that be a fair assumption?

**Mr McCarthy**—Yes, again. This district is progressive; I think it is acknowledged that the Isis district is progressive. It is often regarded highly within the industry as one which works closely with its cooperative sugar mill. We cherish the fact that we own our own sugar mill. It has diversified into other lines of business such as cogeneration. All of the farmers here have a huge investment in that sugar mill. We have accessed production from the Bundaberg area since deregulation. We have diversified. The mill actually encourages and supports the diversification

of the farms into peanuts and soya beans—and openly does so. At the half-yearly meeting, the chairman of directors said that it is encouraging growers to diversify on what was traditionally fallow land. We are not going to go down without a fight, that is for sure. We understand that there are rises and falls in commodity prices; what farmer would not know that! The problem is we believe that the fertiliser price is artificially high and that that is placing unnecessary pressure on our businesses, pressure we could do without right now, at a time when our industry is finding it a little difficult, to say the least.

**Senator STERLE**—I appreciate that. Thank you very much.

**CHAIR**—There are some similarities with fuel and oil. Recently there was some speculation that to do something about the price of oil some of the countries should drop their subsidy regimes, which are driving demand for fuels in some countries. I guess you could apply that to fertiliser because there are some pretty serious subsidies that we have to compete against. As Incitec Pivot said this morning, their obligation will be to maximise the profit. If for some reason China, for instance, could take the million tonnes we produce, it would not make a blip in its budget, but it would certainly make a big dint in our agricultural industries here. They are things that we have got to give consideration to.

I would like to ask you about the regulation of fertiliser in Queensland and what state requirements and regulations have to be met by the manufacturers and suppliers. And if the answer is that you do not know or there are none—that is fair enough.

**Mr Stanley**—We would have to answer that we do not know. We certainly have suggestions that at least the price of fertiliser needs to be regulated, but how that fits in with the state requirements we do not know. We are talking on behalf of the sugar industry. It might affect grain and horticulture and all the others differently.

**CHAIR**—Do you blokes use a range of fertilisers like MAP, single, DAP and that sort of thing? Or is it mostly urea?

**Mr McCarthy**—At planting time we generally use a mixture. Sometimes it is a product called 55S; that is a common one. It is a mixture of DAP, diammonium phosphate and sulphate of potash, or in some cases growers might use a mixture with potassium chloride in it, muriate of potash. Traditionally that might be used at around 300 kilos to the hectare. Then that plant cane will be top-dressed with another top-dressing mixture, which is based on a mixture of urea and potassium chloride at about 500 kilos to the hectare. Its aim is to provide enough nitrogen, about 160 to 170 kilos to the hectare of nitrogen for the whole crop, about 100 to 120 kilos to the hectare of potassium and around—I forget the exact amount—35 to 40 kilos to the hectare of phosphorus and roughly 15 kilos to the hectare of sulphur.

**CHAIR**—We will now proceed to hear evidence in camera.

*Evidence was then taken in camera—*

**Committee adjourned at 2.40 pm**

