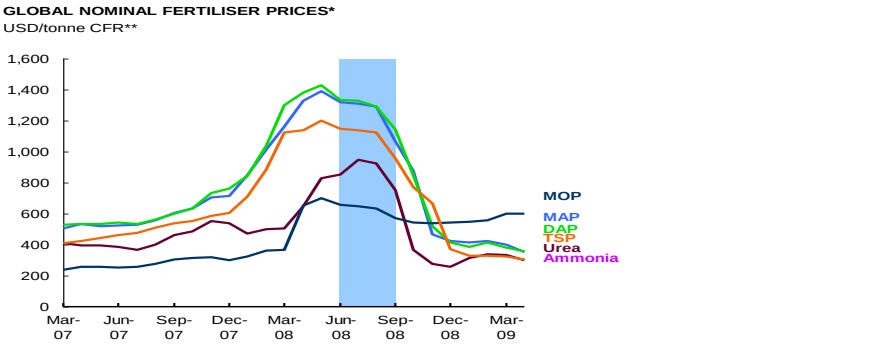
Chapter 2

Pricing and supply arrangements

2.1 This chapter reviews the pricing and supply arrangements in the global and Australian fertiliser markets and the implications that increasing fertiliser prices have had on Australian farmers. There was a dramatic increase in world fertiliser prices in 2007 and 2008. Domestic prices also increased substantially over this period. Global and domestic prices have subsequently fallen since late 2008.

Fertiliser prices

2.2 As indicated in the chart below, global fertiliser prices began to increase sharply from October 2007 and fell rapidly after the September 2008 global financial crisis.[1]



* MAP – Monoammonium phosphate, Black Sea Bulk FOB; DAP – Diammonium phosphate, US Gulf Bulk FOB; Urea – Prill Arab Gulf Bulk FOB; Ammonia – Arabian Gulf; MOP – Muriate of potash, Vancouver Standard Grade Bulk; TSP – Triple Super Phosphate, North Africa Bulk FOB

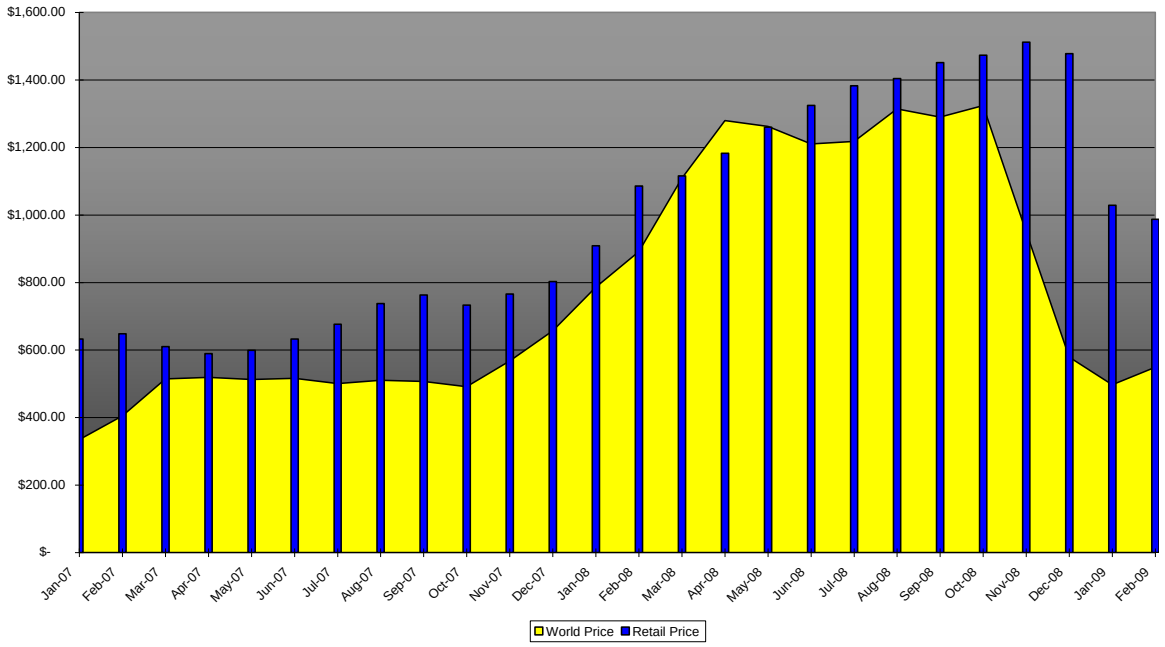
** Based on Baltic Capesize shipping rates and round-trip shipping distances to Sydney

2.3 The Australian Competition and Consumer Commission (ACCC) provided a range of information to the committee relating to di-ammonium phosphate (DAP) and urea world prices and domestic retail prices over the period from January 2007 to February 2009.[2]

1 Mr Angus Taylor, Tabled Document, 7 May 2009, p. 4.

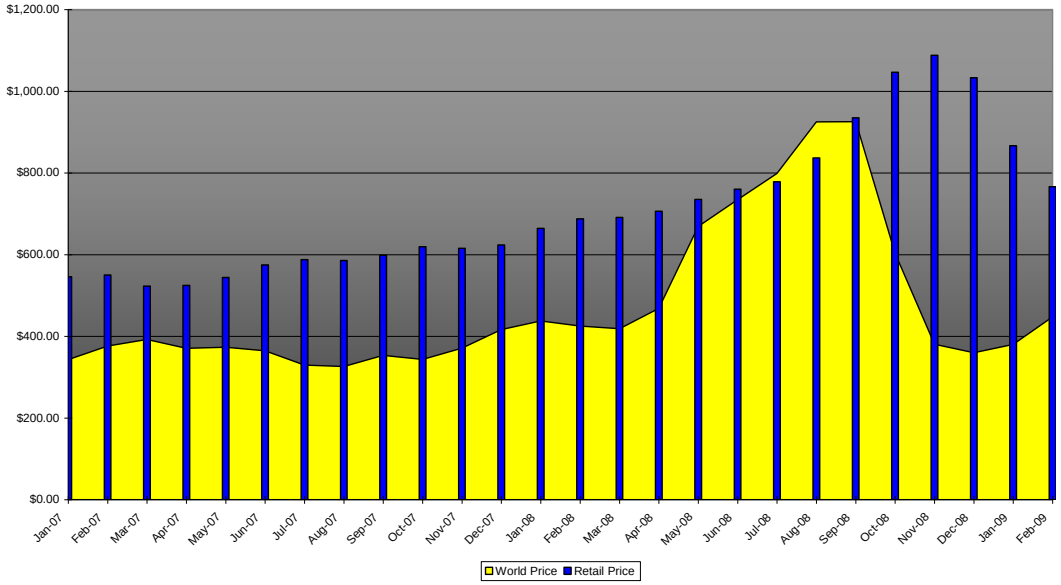
2 ACCC, Answers to questions on notice, dated 26 May 2009, p. 10.

CHART 2a: DAP world price v retail price, Jan-07 to Feb-09



2.4 Chart 2a shows that DAP world prices started to increase in late 2007 with steep increases from October 2007 until April 2008. The prices stabilised at this higher level until October 2008 and declined sharply over the period to January-February 2009. As the world price increased the retail price continued to increase. However, from October 2008, while the world price declined the retail price remained high until January 2009. The decline in retail prices since then has been attributed to the impact of new entrants in the market.

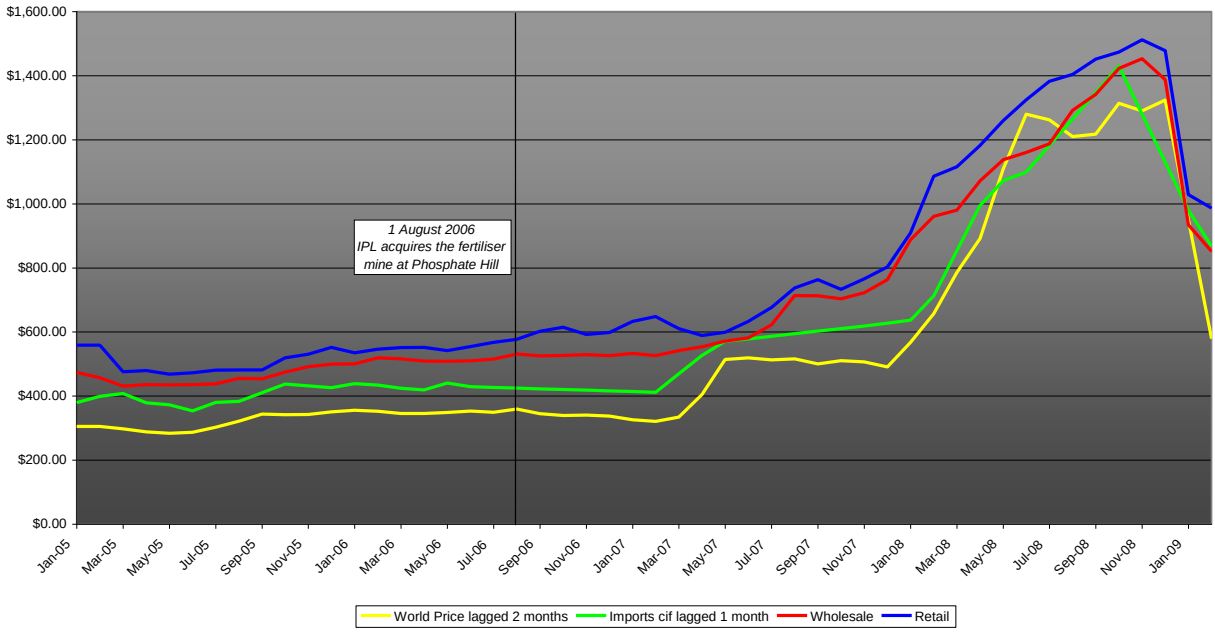
CHART 5a: Urea world price v retail price, Jan-07 to Feb-09



2.5 In relation to urea, world prices increased substantially from April 2008 until September 2008, followed by a steep decline. Retail prices increased in line with world prices over that period. However, from September 2008, while world prices

declined, retail prices increased until January 2009 when prices started to fall (see chart 5a).

CHART 1a: DAP world price (lagged), import value (lagged), wholesale price and retail price, Jan-05 to Feb-09



2.6 The chart above shows the world price, import value, wholesale price and retail price for DAP over the period from January 2005 to February 2009. The vertical line on the chart indicates the date from which Incitec Pivot Ltd (IPL) became the owner of the of the fertiliser mine at Phosphate Hill (1 August 2006), following its acquisition of Southern Cross Fertilisers.

2.7 The committee notes that the wholesale and retail prices for DAP increased substantially since IPL's acquisition of Southern Cross Fertilisers and these price increases were generally in excess of increases in world prices over the period.

Fertiliser price increases

2.8 The dramatic increase in domestic fertiliser prices in 2007 and 2008 was highlighted during the inquiry with increases in prices of 100 per cent or more reported. One study noted that in the period from mid 2007 to mid 2008, delivered Australian fertiliser prices increased by more than 100 per cent.[3] In some cases witnesses reported fertiliser prices trebling or increasing four-fold. One submission stated that:

> …some products have gone up 400% and the majority have gone up between 100 and 200% [in the past 12 months]. While it is accepted that increases are inevitable, this percentage is simply outrageous.[4]

3 Mr Angus Taylor, Tabled Document, 7 May 2009, p. 2.

4 *Submission* 1, K & SJ Henderson, p.1. See also Ms Elle Hall, *Committee Hansard*, 16 May 2008, p. 58.

2.9 Many other submissions and other evidence emphasised the dramatic nature of the price increases.

> It is nothing short of daylight robbery to increase our fertilizer costs from $550 per tonne last season (which we thought was far too high !!) to $1020 per tonne that we have had to pay up front this season. A $30,000 super bill up front is a lot of money to find.[5]

> Prices paid by dairy farmers for fertiliser and chemicals have approximately doubled over the past 12 months and in some cases final supply prices are not known and there is doubt over the timeliness of supply.[6]

> Our planting fertiliser DAP has increased 100% in 12 months, Urea has increased 40% in the last few months…These price increases make a joke of a 4% inflation rate.[7]

> In March 2007 we paid $555 plus GST for 37 tonnes of MAP delivered on farm. We thought at the time it was a rip off, being a huge increase on the year before. This year it was $1200 inc GST.[8]

> 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.[9]

2.10 The Department of Agriculture, Fisheries and Forestry (DAFF) reported smaller though not insignificant price increases. Over the period June 2006 to February 2008 increases in the prices of single super, DAP and mono-ammonium phosphate (MAP) of 40 per cent were recorded. The department stated however that the prices paid by farmers will be higher as they include the cost of transport from manufacturing works plus sellers margins.

2.11 Data by IBISWorld highlights the dramatic increase in fertiliser prices. The data, based on ABARE statistics, shows that the index of prices paid for fertilisers (where 1997-98 equals 100) increased over the period to 2007-08, except in 1999-2000 and 2001-02.

---

5 *Submission* 15, Patricia and Bernard Heard, p. 1.

6 *Submission* 13, Murray Goulburn Co-Operative Co Ltd, p. 1.

7 *Submission* 50, Mr Jeff Leighton, p.1.

8 *Submission* 47, Mr Earnest Kitto, p. 1.

9 Mr Geoffrey McCarthy, Director, Canegrowers Isis Ltd, *Committee Hansard*, 23 July 2008, p. 62.

Table 2.1: Index of prices paid by farmers for fertilisers

	Units
1997-98	100
1998-99	102.7
1999-00	99.8
2000-01	106.4
2001-02	104.3
2002-03	106.9
2003-04	102.8
2004-05	108.8
2005-06	111.6
2006-07	114.3
2007-08	117.2

Source: IBISWorld, *Fertiliser Manufacturing in Australia*, November 2007, p. 39.

2.12 Farmers' organisations also commented on the large increases in fertiliser prices and the effect of these increases on farmers. The National Farmers' Federation (NFF) in response to this issue surveyed its members, finding that in just the past 12 months to May 2008, fertiliser prices increased, on average, by 107 per cent. Similar price increases for chemical prices have also been experienced during the same period. The NFF stated that:

> The higher fertiliser and chemical prices are eating into the margins of farmers and come on top of a growing list of additional input costs being faced by the farm sector. This is forcing farmers to adjust their production systems, often at the expense of productivity.[10]

2.13 The NSW Farmers Association illustrated the dramatic nature of recent price rises in recent years:

> …if you have a look at the figures they will show quite clearly that there has been far in excess of CPI on fertiliser price increases since about 1990. In actual fact over the last 12 months Single Super, a phosphate based fertiliser, has gone from about $240 a tonne to $365 a tonne. DAP fertiliser has gone from about $580 a tonne two years ago to $850 one year ago to $1,300—and I have heard quotes of up to $1,600. MAP fertiliser, a nitrogen

10 *Submission* 20, NFF, p. 3.

> based fertiliser, is the same as DAP. Six months ago the urea price was $600 and it is now looking at about $900 a tonne.[11]

2.14 WAFarmers stated that many farmers in that state who will need to spend in the order of $200 000-$300 000 extra to obtain the same amount of fertiliser as they bought in 2005, representing around a 25 per cent increase.[12]

2.15 AgForce Grains Ltd illustrated the gravity of the situation by noting that the rise in fertiliser and chemical input costs for Queensland grain farmers is 14 times the rate of inflation over the period 2004 to 2008.[13]

Causes of fertiliser price increases

2.16 A number of reasons have been advanced to explain the increase in fertiliser prices over recent years, including a range of global demand and supply factors.

2.17 Specifically, studies and submissions to this inquiry have indicated that the increase in world fertiliser prices have been driven in part by a dramatic upturn in demand for agricultural fertiliser in both developing and developed countries. Price pressures have been compounded by a limited world supply of key fertiliser ingredients – nitrogen, phosphorus and potassium – with structural constraints on the speed at which the fertiliser industry can increase production.[14]

2.18 DAFF stated that:

> Current world indicator prices for fertiliser are high as a result of increased world demand for fertiliser, particularly in the United States, combined with a decrease in the United States' production capacity. Fertiliser production costs have also increased.[15]

2.19 The committee considers that there is also a need to investigate the extent to which fertiliser price rises are due to domestic or international structures or related market failure as opposed to international supply and demand factors. These issues are discussed in greater detail later in this chapter.

Global fertiliser demand

2.20 In relation to global fertiliser demand the International Fertilizer Industry Association (IFA) stated that:

- after a modest 1.5 per cent growth in 2005-6, aggregate world fertiliser consumption increased sharply by 5 per cent in 2006-07;

---

11 Mr Jock Laurie, *Committee Hansard*, 16 May 2008, p. 13.

12 *Submission* 29, WAFarmers, p. 4.

13 *Submission* 24, AgForce Grains Ltd, p. 4.

14 I. Richardson, 'Fertiliser – a precious commodity', *Rabobank Global Focus*, Summer 2007, pp 1–7; L.M. Maene, 'International fertilizer supply and demand', Paper presented at the Australian Fertilizer Industry Conference, August 2007. See *Submission* 26, IPL, pp 1-7; *Submission* 6, Mosaic, pp 1-3.

15 *Submission* 35, DAFF, p. 4.

- consumption of nitrogen (N) fertilisers increased more rapidly (5.4 per cent) than that of phosphorus (P) –5.1 per cent – and K (potassium) – 3.5 per cent;
- by region, demand recovered strongly in North America and West Asia, after previous declines; more moderate but strong growth was recorded in parts of Asia, Africa, Eastern Europe and Latin America;
- consumption declined significantly on Oceania and modestly in Western and Central Europe;
- East Asia and North America accounted for two-thirds of the increase in world fertiliser consumption in 2006-07.[16]

2.21 The IFA argued that global economic and agricultural contexts are projected to remain favourable in 2008-09 as a result the 'upward trend' in world fertilizer demand will continue.[17] In the medium term, world fertiliser demand is projected to grow steadily. Compared to average consumption between 2004-05 and 2006-07, global demand in 2011-12 is expected to increase 2.6 per cent annually on average. The bulk of the increase in demand is expected to come from Asia and, to a lesser extent, from Latin America.[18]

2.22 DAFF also indicated that global fertiliser demand is expected 'to remain strong' in 2008.

> Partly reflecting increased demand from the biofuels sector, grain and oilseed have also increased significantly in 2007–08. Higher grain and oilseed prices expected to lead to an increase in the area sown to these crops in major producing countries in the 2008–09 season, resulting in higher demand for fertiliser.[19]

2.23 A paper by L.M. Maene, Director-General of the International Fertilizer Industry Association, concluded that all supply and demand situations 'will be tight to balanced until 2009' due to stronger than expected demand.[20] The paper noted that:

- there will be an ammonia surplus in some regions and a deficit in others except for 2009-10 when supply/demand will be in balance. Urea supply will grow at a faster rate than that of demand with a surplus likely in 2009.
- phosphate rock availability will increase but exports will grow only from a few countries. DAP supply/demand will remain in balance until 2010.

---

16 IFA, *World Agriculture and Fertilizer Demand, Global Fertilizer Supply and Trade 2007-2008: Summary Report*, IFA, 2007, p. 2 cited in *Submission* 10, IFA.

17 IFA, *World Agriculture and Fertilizer Demand, Global Fertilizer Supply and Trade 2007-2008: Summary Report*, IFA, 2007, p. 3 cited in *Submission* 10, IFA.

18 IFA, *Medium-Term Outlook for Global Fertilizer Demand, Supply and Trade 2007-2011: Summary Report*, IFA, 2007, p. 3 cited in *Submission* 10, IFA. See also FAO, *Current World Fertilizer Trends and Outlook to 2011/12*, 2008, p. ix.

19 *Submission* 35, DAFF, p. 5.

20 L.M. Maene, 'International fertilizer supply and demand', Paper presented at the Australian Fertilizer Industry Conference, August 2007, p. 13.

- potash supply will increase in China and in most exporting countries. A marginal growth in surplus will develop only in 2011.[21]

Factors affecting global fertiliser demand

Growing world population

2.24 In recent decades the use of fertiliser globally has expanded significantly, driven by a combination of growing population and declining land available for agriculture. The economic need for increased yields in order to feed a growing population from limited arable land has driven this increased fertiliser consumption.[22] Fertiliser consumption has grown at a compound rate of two per cent between 1972 - 2005. On an individual basis, nitrogen consumption has grown at 2 per cent, phosphate at 1.3 per cent and potash at 1.1 per cent.[23]

2.25 The NFF commented that:

> It is anticipated that between 50 and 70 million people will be added annually to the world population until the mid 2030. The growing world population has resulted in an increase in production requirements from limited agricultural land. As a consequence of higher production, demand for fertilisers and chemicals has also risen accordingly.
>
> As the population increases, population dwelling centres also expand in size. This inturn places pressure on fertile agricultural land, forcing more marginal land to be utilised for food and fibre production and therefore a greater reliance on such agricultural inputs.[24]

2.26 Similarly, the IFA stated that:

> The need to boost agricultural production worldwide is stimulating fertilizer production in Asia and the Americas and leading global demand to new record levels.[25]

2.27 The majority of growth in fertiliser usage has been concentrated in developing regions. In the developed world, the long-term trends have shown steadier and more gradual growth in fertiliser consumption. This changed in 2007, with increased demand for fertiliser from both developed and developing countries, driven by high commodity prices and the biofuels boom.

---

21 L.M. Maene, 'International fertilizer supply and demand', Paper presented at the Australian Fertilizer Industry Conference, August 2007, p. 13.

22 *Submission* 20, NFF, pp 5-6.

23 Rabobank study, p. 2.

24 *Submission* 20, NFF, p. 5. See also *Submission* 4, NSW Farmers Association, pp 10-11.

25 IFA, *World Agriculture and Fertilizer Demand, Global Fertilizer Supply and Trade 2007-2008: Summary Report*, IFA, 2007, p. 2 cited in *Submission* 10, IFA.

High agricultural commodity prices

2.28 Submissions noted that increased demand and high prices for grain and other agricultural commodities has led to an increased demand for fertiliser as farmers look to take advantage of the agricultural price boom.[26]

2.29 The Rabobank study also noted that the dramatic expansion in grain area in 2007 resulted in a demand for fertiliser that was beyond current fertiliser production capacity, which contributed to significant increases in input prices around the world. The study stated that:

> There tends to be a close relationship between high fertiliser prices and high commodity prices as a farmer's demand for inputs is driven by a desire to increase yields in a high commodity price environment.[27]

Biofuels

2.30 Increases in fertiliser consumption are also being driven by the biofuels boom. Biofuel crops include corn, sugar cane and palm oil. As a result of record oil prices and new legislative requirements overseas designed to address global warming concerns there has been a substantial increase in the demand for biofuels.[28]

2.31 In the United States, for example, increasing demand for corn for ethanol production resulted in farmers in 2007 planting the largest acreage to corn since 1944. Corn is a fertiliser intensive crop which translated into increased demand for fertiliser, particularly nitrogen-based products such as ammonia and urea. This is one of the factors that led to higher input prices globally.[29]

Shift in dietary patterns

2.32 Income growth, especially in developing countries, is resulting in a shift in global dietary patterns away from traditional staples such as cereals and roots towards more livestock, fruit and vegetables.

2.33 This shift in dietary habits affects the global demand for fertilisers in two ways. Increased demand for livestock in turn leads to increased demand for grain as a feedstock – which has a flow-on effect of increasing demand for fertiliser to produce that grain. Further, a shift in demand from grain to vegetable and fruit crops leads to increased fertiliser demand as these crops require greater fertiliser applications than grain crops.[30]

Reduced arable land

2.34 Increases in biofuel production has resulted in less arable land being available for other agricultural production, which in turn puts pressure on supply and prices for

---

26 *Submission* 20, NFF, p. 6; *Submission* 26, IPL, p. 4.

27 Rabobank study, p. 3.

28 *Submission* 20, NFF, pp 7-8; *Submission* 26, IPL, p. 5.

29 Rabobank study, p. 3. See also *Submission* 26, IPL, p. 5.

30 *Submission* 26, IPL, p. 5.

food products. In addition, as the world population increases more land must be allocated to housing, therefore reducing the amount of land available for crops. The increased demand for agricultural products is being met by increasing productivity, primarily through the use of fertiliser.[31]

Global fertiliser supply

2.35 In relation to global fertiliser supply the International Fertilizer Industry Association (IFA) noted that 2007 was a record production year for most nutrients, but 'buoyant demand' stretched the industry's capacity to meet global requirements. The IFA summarised the position in the following terms:

- nitrogen – nitrogen supply and demand conditions remained 'very tight' in 2007 driven by strong nitrogen fertiliser consumption worldwide, particularly in the main consuming countries. Delays in commissioning of new capacity further tightened supply availability.
- phosphate – world demand for phosphate fertilisers grew by 3.8 per cent in 2007, pressuring the industry to operate at high rates during the year. Production of raw materials and processed phosphate fertilisers rose to near record levels, while input costs continued to expand, especially in the case of sulphur and ammonia.
- potash – world potash market conditions were very tight in 2007, due to stronger than anticipated demand for potassium nutrient. A surge in import demand stretched producers' ability to supply the customer base. [32]

2.36 In the medium term, the IFA stated that, in relation to the global nitrogen supply-demand balance, beginning in mid-2008, the rapid growth in capacity will ease the global supply-demand balance. The growth of the surplus will accelerate after 2009, as new large plants come on stream. With regard to phosphate, IFA estimates that world phosphate rock capacity is expected to increase at an annual growth rate of 4 per cent from 2007 to 2011. The overall phosphoric acid supply-demand situation will be tight from 2006 to 2010, however a surplus will emerge in 2010-11. In relation to potash, the IFA estimates that the global supply-demand balance will tighten in the short term. Starting in 2010, the addition of new capacity will reverse this trend.[33]

Factors affecting global fertiliser supply

2.37 The key fertiliser commodities, in particular, urea, MAP, DAP and potash are manufactured using a limited number of basic input sources which substantially influence the cost of the end product. Increases in demand for these basic inputs, combined in some cases with scarce global supply, has resulted in substantial increases in the cost of fertiliser production.

---

31 *Submission* 26, IPL, p. 5.

32 IFA, *World Agriculture and Fertilizer Demand, Global Fertilizer Supply and Trade 2007-2008: Summary Report*, IFA, 2007, pp 3-6, cited in *Submission* 10, IFA.

33 IFA, *Medium-Term Outlook for Global Fertilizer Demand, Supply and Trade 2007-2011: Summary Report*, IFA, 2007, pp 4-7, cited in *Submission* 10, IFA. See also FAO study, p. ix.

2.38 Sourcing of raw materials has been identified as a major factor in fertiliser price increases.

Nitrogen fertiliser

2.39 The supply and pricing of natural gas has a significant impact of on the cost of nitrogen fertiliser. Natural gas is the basic feedstock (fertiliser ingredient) in the production of ammonia, and therefore nearly all nitrogen-based fertilisers. Natural gas accounts for up to 90 per cent of the cost of ammonia manufacture. The price of natural gas therefore substantially affects the price of nitrogen fertilisers.[34]

2.40 Despite its relative wide availability, the pricing of natural gas makes some regions more competitive suppliers than others. Over the past decade there has been a relocation of plant capacity from high-cost production regions, for example, the United States, to lower cost production regions such as the Middle East. However the industry is constrained in how quickly it can increase production to boost global supplies. The investment in plant and equipment required to produce fertiliser is significant. In addition, to plan and build new capacity can take several years.

2.41 The United States has traditionally been a significant producer of ammonia and urea. However, in 2001 the costs of natural gas in the US increased dramatically and US fertiliser producers responded by closing plants, thus significantly reducing US production and increasing imports. This placed pressure on global ammonia/urea capacity to supply a new regional demand.[35]

2.42 A longer term response to high natural gas prices in the US and the EU has been the relocation of substantial nitrogen production capacity to regions where natural gas can be purchased at lower prices, such as the Middle East and North East Africa. It has been estimated that between 2002 and 2008, world ammonia capacity will increase by eight per cent. As a result of relocating capacity, nitrogen fertiliser is increasingly traded internationally, rather than being domestically produced. The Rabobank study stated that:

> The long term structural change in nitrogen production has led to tightness in the market and ultimately this has been reflected in higher nitrogen fertiliser prices globally. Exacerbating this longer term trend has been the recent boom in ethanol production…The relocation of capacity is no small undertaking and, as a consequence, global nitrogen prices have remained high for several years.[36]

Natural gas is also increasingly in demand as a source of clean energy and, in the long-term, fertiliser producers will need to compete for this feedstock.

---

34 *Submission* 6, Mosaic, p. 2; *Submission* 26, IPL, p. 6; *Submission* 20, NFF, p. 5; *Submission* 35, DAFF, p. 5.

35 Rabobank study, p. 4.

36 Rabobank study, p. 5.

Phosphate and potash fertilisers

2.43 The production of both phosphate and potash fertilisers are characterised by finite resources; high barriers to entry to produce P and K fertiliser feedstocks; significant capital investment requirements; a concentration of production due to natural geological constraints; and market concentration – a limited number of global suppliers. The Rabobank study argued that:

> Over time, it is reasonable to expect that the costs of P and K fertiliser will rise as ore accessibility and quality declines and extraction is more costly. The absolute availability of the ore is an important question, as this will affect the rate of price increase.[37]

2.44 IPL noted also noted that there are relatively few sources of phosphate rock in the world – 'the significant increase in world fertiliser demand has led to substantial increases in the price of phosphate rock'.[38] IPL stated that global potash supply is 'even more limited' than phosphate rock.

> The increase in demand for fertilisers has significantly increased the world price for potash, and projected growth in demand significantly exceeds announced industry greenfields capacity expansions. As a result, producers are looking to increase production capacity at existing mines or invest in new mines.[39]

2.45 The Rabobank study concluded that while 'fertiliser feedstocks have not yet become scarce', the continuing need for improving land productivity, growth in agriculture, and global demand for energy will ensure strong demand for these feedstocks well into the future.[40]

Supply disruptions in China

2.46 The Department of Foreign Affairs and Trade (DFAT) advised the committee that a number of factors have lead to disruptions in the supply of fertiliser and agricultural chemicals from China. The Chinese Government has imposed export duties on a wide range of fertiliser products effective from April to December 2008. DFAT stated that the Chinese Government indicated that the increases in export duties are of a temporary nature and are aimed at keeping domestic prices stable given increasing domestic demand. The 2008 earthquake in Sichuan province, which is a major production base for fertilisers and agricultural chemicals, has disrupted fertiliser production in that area, and is likely to lead to further disruptions in supply.[41]

37 Rabobank study, p. 6.

38 *Submission* 26, IPL, p. 6.

39 *Submission* 26, IPL, p. 7.

40 Rabobank study, p. 7.

41 DFAT, Correspondence, dated 17 June 2008 and 30 September 2008.

Market manipulation

2.47 Other international and domestic factors have also contributed to high fertiliser prices, including the high level of market concentration in the industry. The global fertiliser industry comprises a small number of large suppliers of fertiliser products. The committee understands that between 80 and 85 per cent of the world's rock phosphate is controlled by five entities.[42]

2.48 One witness commented on this degree of industry concentration in the rock phosphate market and the ability of key market players to determine prices in this market. The industry was characterised as exhibiting cartel-like behaviour.

> Mr Bergin –As you are probably aware, the Moroccans control 50 per cent of the traded rock phosphate in the world, so they are the price setters. In terms of forecast supply and demand, the global long-term trend is about two to 2.5 per cent annual growth in demand, which is about the equivalent of a Wonarah every year. If you take all the known projects and stack them up in the time line in which they are currently forecast, there would be a surplus of supply over demand in about 2011. We believe that the reality is that many of those projects, whilst they will come to fruition, will not make it in the time frame that they are anticipating, and therefore the supply curve is going to flatten and, in our estimation, is unlikely to cross the demand curve. Therefore, we think the market is going to stay in deficit.
>
> Senator O'BRIEN—So prices will go up?
>
> Mr Bergin—Prices will go up or will be determined by whatever the Moroccans want to charge.
>
> Senator O'BRIEN—They will want the price to go up.
>
> Mr Bergin—I am sure they will. They have, I suppose, shown their OPEC-like position over the past year or so, in which they went from about US$50 or US$70 a tonne to US$400, US$450.[43]

2.49 The witness further noted that:

> It [the market] is certainly dominated by the Moroccans—and, I guess, the Jordanians as well. They certainly control the price that most people have to pay for their rock. There are a number of smaller producers that apparently are supplying at lower prices, but they may also be providing a lower quality of rock.[44]

Market manipulation – importation of phosphate rock from Nauru

2.50 Evidence of the manipulation of the market is illustrated in the case of the importation of phosphate rock from Nauru by IPL and other companies.

2.51 The committee received both public and confidential information that indicated that the price paid by a number of companies importing phosphate from

---

42 *Committee Hansard*, 14 November 2008, p. 12.

43 Mr Neville Bergin, Minemakers Ltd, *Committee Hansard*, 24 March 2009, p. 6.

44 Mr Neville Bergin, *Committee Hansard*, 24 March 2009, p. 8.

Nauru remained largely in the range of US$40-50 per tonne over a number of years from late 2005 to late 2008, even as world rock phosphate prices were increasing.[45] Nauru phosphate shipping schedules (reproduced at Appendix 3) illustrate this point. This evidence was particularly disturbing given that rock phosphate was trading at over US$200 per tonne in 2008. The evidence suggests that a number of companies were using cartel-like behaviour to fix prices well below world prices to the detriment of the government and people of Nauru.[46]

2.52 The Nauru Landowners Association indicated their concerns with regard to IPL, arguing that the company was importing phosphate rock from Nauru at well below market prices. The Association stated that:

> …the [IPL] submission makes a claim of purchasing phosphate rock prices commencing at USD200/mt. We are of course concerned when the information we have is that the same company – IPL – at the same time it made that submission to the select committee [April 2008], was purchasing Nauru rock (probably the highest grade phosphate rock in the world) at USD40/mt.[47]

2.53 The Association expressed concern that the Nauruan Government has been failing to secure proper prices for the phosphate rock it sells to Incitec Pivot Ltd (IPL) and other buyers. A particular concern is that Nauruan landowners are not receiving the proper rate of royalties that they should be entitled to as a result of rising global prices for phosphate.[48]

2.54 The committee questioned IPL concerning its imports from Nauru. The company confirmed that it imported phosphate rock from Nauru in 2008 but was not able to confirm the price paid.

> CHAIR—How much are you paying?
>
> ....
>
> CHAIR—Would it be $40 to $50 a tonne?
>
> Mr Whiteside—It used to be. It is not any longer.
>
> ….
>
> 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?

---

45 Mr Adam Cox, *Committee Hansard*, 10 August 2009, pp 14-16.

46 See also *Committee Hansard*, 4 February 2009, pp 21-22.

47 Mr David Adeang, on behalf of Mr Kennan Adeang, Nauru Landowners Association, Correspondence, dated 4 August 2008. The IPL submission (dated April 2008) stated that 'high quality phosphate rock is now trading at over US$200/tonne, up from US$50/tonne at the beginning of 2007' (p. 6).

48 Mr David Adeang, Nauru Landowners Association, Correspondence, dated 4 August 2008.

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—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.[49]

2.55 Incitec Pivot subsequently provided information to the committee, on a confidential basis, indicating that the contract price paid for phosphate rock had subsequently been increased from US$40.

2.56 The committee notes that IPL entered an agreement with the Nauruan Government in 2005 under which the company provided approximately $5 million in capital to refurbish infrastructure to facilitate export of phosphate rock. IPL was not required to pay for the phosphate rock until the company's investment was recouped. IPL stated that:

---

49 Mr James Whiteside, *Committee Hansard*, 23 July 2008, pp 26-28.

> I think it was around $5 million to refurbish the plant and provide some equipment and machinery to allow them to export. In return we took rock which was valued at a price and we took that for free until we had recouped our $5 million.[50]

2.57 IPL further stated that:

> Mr Whiteside—…In the end we then terminated that agreement [with the Nauru Government] and renegotiated a new traditional supply agreement, which is a normal purchase agreement whereby we on an annual basis negotiate a price. We have done that again for the contract year which starts in July. It is a number substantially higher than $40—again, done on an arms-length basis to reflect—
>
> CHAIR—What is it now?
>
> Mr Whiteside—That is commercially confidential. It is substantially higher. It reflects the value of the rock.[51]

2.58 The shipping schedules at Appendix 3 would appear to be at odds with this evidence.

2.59 IPL indicated that when it was purchasing the phosphate rock at $40 a tonne the company did not bring it onto its books at $200. IPL stated that:

> CHAIR—So when you were buying it for $40 a tonne were you bringing it on to your books at $200? How did you bring it on to your books?
>
> Mr Whiteside—It would have come in at the price that we paid for it.
>
> CHAIR—Are you quite sure of that? You did not write it up into your books.
>
> Mr Whiteside—No, we would bring it onto the books at the price on the supplier's invoice.
>
> CHAIR—So your profit came further down the line from getting it well under the market?
>
> Mr Whiteside—Yes, it would be reflected in our manufacturing markets.[52]

2.60 The Nauru Landowners Association stated that it understood that the price had increased to US$120 per tonne, commencing in August 2008.

2.61 The committee also received confidential information from a variety of sources indicating grave concerns with the conduct of IPL and other companies in their contract relations with the Government of Nauru.

2.62 The committee believes that the example of the importation of phosphate rock from Nauru at prices well below world prices and below the cost of production

---

50 Mr James Whiteside, *Committee Hansard*, 10 August 2009, p. 9.

51 Mr James Whiteside, *Committee Hansard*, 10 August 2009, p. 9.

52 Mr James Whiteside, *Committee Hansard*, 10 August 2009, p. 10.

illustrates the manipulation of the market and calls into question the claims of industry players that the market responds purely to supply and demand factors.

2.63 The committee notes the contribution of AusAID funding to Nauru which could be seen as subsidising the Nauru Government in lieu of monies that should have been derived from fertiliser companies if rock phosphate prices had been contracted at market prices.

2.64 The example of Nauru is illustrative of general trends in the industry. The committee also notes the reported comments of an industry observer that suggested major market players were able to increase fertiliser prices generally with impunity during 2007.

> He was describing what happened last year and he said, 'We got away with it.' They were his words. He did not name the grades, but he said, 'We were able to put up the price $100 a fortnight and we did that two or three times more than we thought the market would allow us to bear.'[53]

2.65 In addition, the committee also notes that the cartel-like behaviour in relation to MAP appears to be severely weakened by the behaviour of Russia in 2008 to increase production and reduce the price in defiance of the major players in the market who wanted to reduce production and maintain price levels.[54]

Committee view

2.66 While a range of international supply and demand factors have influenced the increase in fertiliser prices in recent years, the committee considers that it is also important to examine the role of key market players in influencing fertiliser prices. Evidence to the inquiry suggested that the high degree of industry concentration enables key market players to heavily influence prices in this market.

2.67 Evidence of the manipulation of the market is graphically illustrated in the case of the importation of phosphate rock from Nauru by IPL and other companies. The importation of phosphate at well below world prices provides just one example of the corruption of the market and calls into question the repeated claims of industry players that the market responds purely to supply and demand factors.

2.68 The committee believes that greater attention needs to be directed at the role of global fertiliser suppliers in influencing world prices, including the cartel-like behaviour operating in an international context.

Implications for Australia

2.69 The global supply and demand factors identified above have affected fertiliser prices in Australia. The committee notes, however, that domestic factors, including

53 Cited by Chair, quoting Mr Andy Jung, an American researcher attending the Australian Fertiliser Outlook Conference, October 2008, *Committee Hansard*, 14 November 2008, p. 42.

54 For a discussion, see *Committee Hansard*, 14 November 2008, p. 42; 4 February 2009, p. 11; and 24 March 2009, p. 8.

industry concentration and market manipulation, also play a part in influencing domestic fertiliser prices.

2.70 DAFF noted that as Australia is a net importer of fertiliser and chemical products, movements in Australian prices generally track developments in world markets – 'because of limited substitution possibilities between these and other farm inputs, Australian farmers have little choice but to absorb increases in fertiliser and chemical costs'.[55]

2.71 The 2008 ACCC report into fertiliser prices also noted that the significant rises in fertiliser prices in Australia 'are mainly attributable to rapidly increasing global fertiliser prices'. The ACCC added that:

> These increases have been caused by a substantial increase in world demand for fertilisers associated with an expansion in agricultural production...and by rises in costs of production associated with the increasing cost of energy. This is occurring in a market where the global supply capacity is limited in the short-to-medium term.[56]

2.72 The committee considers that the report is flawed, especially in terms of providing a thoroughgoing analysis of the industry. The report itself noted that the Minister's request to the ACCC did not constitute a formal price inquiry under Part VIIA of the *Trade Practices Act 1974* (TPA) – accordingly, the ACCC had no formal information gathering powers and instead relied on the 'cooperation and assistance of interested bodies' in undertaking its inquiry. The report also noted that generally the Commission relied on the 'truth and accuracy' of submissions and statements from interested parties.[57]

2.73 As conceded by Mr Brian Cassidy, Chief Executive Officer of the ACCC, the Commission's inquiry was an 'inquiry into prices' and not into the competitive tensions in the market.[58]

> …we were asked by the minister to look at fertiliser prices, particularly in the context of the fairly sharp increase in fertiliser prices, starting from about March-April 2007. That letter [from the Minister] is, to some extent, about looking at the structure of the industry. That was as a spin-off from looking at prices. I agree the inquiry was not about looking at the structure of the industry per se. It was an inquiry that we were asked to do in relation to fertiliser prices.[59]

2.74 The report's emphasis on international factors to explain fertiliser price increases is difficult to sustain especially in the case of urea prices. In its report the

---

55 *Submission* 35, DAFF, p. 4.

56 ACCC, *ACCC Examination of Fertiliser Prices*, July 2008, p. 28.

57 ACCC report, p. 1.

58 Mr Brian Cassidy, *Committee Hansard*, 14 November 2008, p. 17.

59 Mr Brian Cassidy, *Committee Hansard*, 14 November 2008, p. 17.

ACCC noted that urea retail prices increased substantially in Australia while world prices remained relatively stable.[60] The ACCC provided the following explanation:

> The overall conclusion of this examination was that in general world and retail prices [for DAP and urea] tracked each other reasonably closely. This conclusion described the general findings from the analysis over the entire time period, rather than attempting to suggest that the difference between the world price and the retail price is always locked at a single number. The difference in prices will fluctuate around the average over time due to a wide variety of factors.[61]

2.75 The ACCC stated that for urea, the average monthly difference between the world price and the retail price over eight years from March 2000 to May 2008 was approximately $190 per tonne –'however, the examination identified that there were periods during which the difference between world and domestic prices opened and closed'. The committee notes the Commission's explanation but still does not consider that the world price and retail price for urea could be described as tracking reasonably closely.

2.76 The committee also questioned the report's emphasis on analysis of DAP and urea, when the bulk of fertiliser used in Australia is MAP and single super.[62]

Domestic prices

2.77 Companies noted that the substantial global increases in 2007 and 2008 in fertiliser prices have translated directly into higher domestic prices. IPL stated that the increase in local prices 'reflects the fact fertilisers are freely traded commodity products and that Australian fertiliser prices are therefore inextricably linked with global prices'.[63] Australia only represents 1.4 per cent of global fertiliser consumption. Mosaic also noted that 'prices delivered to Australian farmers have escalated in line with the increases seen in the global fertilizer and freight markets over the past year'.[64]

2.78 Witnesses however questioned this interpretation arguing that prices reflect what the market will bear. One witness observed that:

> …the suppliers of fertiliser are charging what they know the market will bear, because demand is strong, so they can keep putting the prices up and continue selling as much product as they have available…They are going to maximise their profits like anybody else when they can take advantage of the situation.[65]

---

60 ACCC report, p, 19. See also Mr Brian Cassidy, *Committee Hansard*, 14 November 2008, p. 22.

61 ACCC, Answers to questions on notice, dated 26 May 2009, p. 13.

62 *Committee Hansard*, 14 November 2008, pp 19-20.

63 *Submission* 26, IPL, p. 8.

64 *Submission* 6, Mosaic, p. 3.

65 Mr Michael Fels, *Committee Hansard*, 16 May 2008, p. 63.

2.79 Even Dr Terry Sheales of ABARE conceded that commodity prices are affected in this way:

> Dr Sheales—I understand that there were problems with keeping up the supply in the domestic US manufacturing sector and, of course, that spills into the global market in terms of increased demand.
>
> CHAIR—So it is what the market would bear?
>
> Dr Sheales—I would have to suggest, that probably for most commodities, that would be the case. With most manufactured commodities, at the end of the day, unless you can cover your costs whatever they are you cannot stay in business.[66]

2.80 One submission observed that:

> Through an apparent total disregard for others' rights or natural justice, one fertilizer executive stated in a media report that the price of fertilizer was dependent on the farmers 'ability to pay'.[67]

2.81 IPL offered an explanation of the relationship between international price increases and their effect on Australian prices:

> In short, Australian fertiliser manufacturers do not produce sufficient volumes of the key fertiliser types to satisfy domestic demand. This is a result of the seasonal nature of demand, which means that local manufacturing facilities cannot produce sufficient output during peak demand periods. A significant volume of fertiliser is ordered and delivered during a limited number of months of the year (in particular in the lead up to the winter cropping season in March – June). There is significantly less demand during other months. Demand is more cyclical in southern states in Australia than in Queensland.
>
> As a result, there is significant and sustained import of fertilisers into Australia, and prices are based on import parity. Overall, approximately 48% of Australia's total fertiliser consumption is imported.[68]

2.82 IPL explained that like many Australian industries where imports are required to meet domestic demand, fertiliser prices are set on an import parity basis.

> Domestic manufacturers such as IPL are price takers that is, 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.
>
> Like many agricultural markets, such as the grain and wool markets, in which there are global benchmark prices, it would not be rational for Australian fertiliser manufacturers to price below import parity since it would be more profitable to export the product instead. The fertiliser

66 Dr Terry Sheales, *Committee Hansard*, 16 May 2008, p. 71.

67 *Submission* 34, Ms Margaret Menzel, p. 1.

68 *Submission* 26, IPL, p. 8.

> industry is like any Australian industry which produces internationally traded commodity products - while domestic manufacturers do benefit from high global prices, they are also disadvantaged when prices fall.[69]

2.83 The committee questioned IPL concerning the efficacy of the competitive model in a practical sense, and in particular, as to how feasible it would be for farmers to purchase imported product if a local reseller decided to lift prices above import parity prices.

> 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…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.[70]

2.84 Submissions also questioned the above rationale put forward by IPL. In relation to import parity pricing one submission noted that:

> World parity pricing – this is the same excuse as is given for fuel prices…World parity pricing is a 'cop out' especially where Australia produces significant amounts of some fertilisers, phosphorus in particular, and government should intervene.[71]

2.85 One study that examined import parity pricing (IPP) stated that it could be argued that pricing at import parity simply involves pricing at 'what the market will bear' – 'to some this involves profiteering, if it allows domestic suppliers to cover their costs and make economic profits, because of the price "wedge" afforded by IPP'.[72]

---

69 *Submission* 26, IPL, p. 9.

70 Mr James Whiteside/Mr Jamie Rintel, *Committee Hansard*, 23 July 2008, p. 47.

71 *Submission* 22, Peter & Yvonne Abel, p. 1.

72 G. Parr, 'Import parity pricing; a competitive constraint or a source of market power?', Paper presented at the TIPS Forum, South Africa, 2005, p. 4.

2.86 Submissions also raised the issue of the appreciation of the Australian dollar which would have been expected to lead to lower fertiliser prices. The NFF stated that the increase in fertiliser prices are particularly perplexing for farmers considering that approximately 75 per cent of the key fertiliser ingredients of nitrogen, potash and phosphate are imported and that the Australian dollar has appreciated by almost 15 per cent against the US dollar since the beginning of 2007.[73]

2.87 Another submission similarly observed that:

> …we were told by the 'gurus' that when the value of the $AUD went down, they had to increase fertiliser prices, and we can understand that. But when the value of the $AUD went up they also increased prices, using the change in the $AUD as the reason for the price increases. We have experienced that truth in this industry is optional.[74]

2.88 Some submissions have noted that the increase in fertiliser prices have moved in line with grain price increases and speculated whether or not the increase is coincidental. One farmer asked rhetorically:

> Do you think that the price of fertiliser would have increased so much if the price of wheat had not doubled, and canola gone from $600 a tonne in December to $850 a tonne in February?[75]

2.89 The NSW Farmers Association noted that a similar situation was evident in Canada in 1995 and 1996 – as wheat prices rose, fertiliser prices tracked almost in line with the increases. Fertiliser companies raised prices 75 per cent eroding any marginal gains achieved by farmers as a result of increased prices.[76]

2.90 ABARE data based on indices of prices paid by Australian farmers for fertiliser and wheat show a strong correlation between increasing wheat prices and fertiliser prices, especially in the years 1997-98 to 2006-07. From 1997-98, the base year of the indices, the price received for wheat by farmers increased by 19.9 per cent to 2006-07 and the price paid for fertiliser increased by 21.4 per cent. In the years 2007-08 and 2008-09 there was a large growth in fertiliser prices and a lesser growth in wheat prices. In 2007-08, the price paid for fertiliser is estimated to have increased by 120.4 per cent from the base year, while the price paid for wheat increased by 90.7 per cent. In 2008-9, it is estimated that the price paid for fertiliser will have increased by 197.6 per cent from the base year while the price received for wheat will have increased by 68.2 per cent.[77]

---

73 *Submission* 20, NFF, p. 3. See also *Submission* 48, Mr Roger Carrigan, p. 1.

74 *Submission* 22, Peter & Yvonne Abel, p. 1.

75 *Submission* 33, Mr Tony Hedges, p. 2.

76 *Submission* 4, NSW Farmers Association, p. 6. See also Mr Jock Laurie, NSW Farmers Association, *Committee Hansard*, 16 May 2008, p. 15.

77 Calculations based on ABARE data.

Committee view

2.91 The committee notes that while global increases in fertiliser prices have influenced, to some degree, domestic price increases, it also believes that industry concentration in Australia and consequent market manipulation also play a part in explaining high fertiliser prices paid by Australian farmers.

2.92 The committee considers that high fertiliser prices in Australia over recent years largely reflect what the market will bear. Key industry players are able to manipulate the market. With strong demand, these players are able to increase prices at will, and thereby maximise profits in this advantageous market situation – and all to the detriment of Australian farmers. The role of domestic market competition issues in influencing the rise in fertiliser prices is further examined in chapter 3.

2.93 In this context, the committee notes the conclusions of a study by the Canadian Standing Senate Committee on Agriculture and Forestry into input prices in Canadian agriculture. The report concluded that while global supply and demand factors have contributed to pushing certain farm input prices to record levels in Canada, these factors 'should not distract attention from the potential role of domestic institutional factors in explaining high input prices'.[78]

Implications for Australian farmers

2.94 Evidence to the inquiry indicated that fertiliser price increases pose a serious threat to the continued viability of many farmers.

2.95 The committee received many individual accounts outlining the devastating effect that increases in fertiliser prices have had on farmers.

> I am a beef farmer on the far South Coast of NSW. I am stuffed. We have been travelling along pretty well until now but the three fold increase in the price of fertiliser and chemical has got us beat let alone the doubling of fuel! We have dryland and irrigation farming systems and we farm using the most modern best practice available. How can any business survive when its inputs treble.[79]
>
> We operate a mixed farm of 800 acres in the western district of Victoria. We have had to move more and more into cropping to make our enterprize viable, with the wool prices still not paying to be able to continue producing. We also produce fat lambs - so are still very heavily reliant on fertilizer for pasture management as well as cropping.
>
> It is nothing short of daylight robbery to increase our fertilizer costs…..We have gone off farm contracting to make a living - which has meant very long working hours for us both over the years.[80]

78 Canadian Standing Senate Committee on Agriculture and Forestry, *"Growing" Costs for Canadian Farmers*, June 2008, p. 20.

79 *Submission* 43, Mr Peter Schwarz, p. 1.

80 *Submission* 15, Patricia & Bernard Heard, p. 1.

2.96 The NFF noted that fertiliser and chemical prices comprise between 11 and 14 per cent of total farm cash costs and the increases to date have the effect of significantly eroding margins for many farmers. Additional cost increases faced by agriculture include labour wage rates, fuel prices and official interest rates. Combined, these factors comprise over 56 per cent of total farm cash costs.[81]

2.97 The NFF also noted that on top of these input costs, the Australian dollar has appreciated by over 60 per cent since 2003. With 70 per cent of all Australian agricultural production destined for export markets, this has made it significantly more difficult for Australian farmers to compete on global markets.[82]

Effect on individual sectors

2.98 Fertiliser price increases are affecting many farm sectors. In relation to graingrowers, AgForce Grains Ltd stated that the rise in fertiliser and chemical input costs for Queensland grain farmers is 14 times the rate of inflation over a period from 2004 to 2008. For sorghum the cost of fertiliser and chemical inputs since 2004 has risen from $210/ha to $335/ha and for barley the cost has increased from $165/ha to $275/ha. These represent a 37 per cent (sorghum) and 40 per cent (barley) increase over 4 years.[83]

2.99 AgForce Grains stated that input cost increases with regards to chemicals and fertilisers are posing a 'real threat' to the financial viability of many grain farms in Queensland. The combined effect of drought, flood and other environmental conditions has reduced the cash on hand significantly. Added to rises in interest rates and recently exponential rises in chemical and fertiliser input costs has meant that profitability in 2008 is 'questionable' for many graingrowers.[84]

2.100 PGA Western Graingrowers also stated that input costs, including fertiliser prices are having a dramatic impact of the profitability of broad-acre farming in Western Australia.[85]

2.101 With regard to dairy farmers, the Murray Goulburn Co-operative Co Ltd (MGC) stated that expenditure on fertiliser and chemicals by Australian dairy farm businesses in 2005/06 was about $25 000 or 10 per cent of total farm expenditure. Given recent significant price rises it is therefore reasonable to estimate that collectively MGC suppliers will spend in excess of $100 million on fertiliser and chemicals in 2007/08. Consequently, access to these inputs at internationally competitive prices is critical for the ongoing success of dairy businesses. The MGC stated that:

---

81 *Submission* 20, NFF, pp 10-11.

82 *Submission* 20, NFF, p. 11.

83 *Submission* 24, AgForce Grains Ltd, p. 4.

84 *Submission* 24, AgForce Grains Ltd, p. 14.

85 *Submission* 14, PGA Western Graingrowers, p. 1.

> These price increases will have a significant impact on farm profitability particularly if these effects are long-term or permanent and we see any relative softening of world dairy prices and therefore farm incomes.[86]

2.102 The committee received a large number of submissions from cane farmers and their representative organisations highlighting the severe strains that price increases are having on this industry. The Australian Cane Farmers Association stated that fertiliser price increases in recent years has placed 'considerable pressure' on farm profitability.

> For sugar cane production to continue in Australia and to hold any hope of profitability, a competitive supplier market is essential and sustained high input prices cannot be tolerated.[87]

2.103 Similarly, the Kalamia Cane Growers Organisation stated that:

> The significant price rises for fertiliser during 2007 has led to increased concern in the farming sector as to the future viability and long-term sustainability of their businesses if this sector is to continually absorb these kind of price increases.[88]

2.104 Canegrowers Isis Ltd stated that further fertiliser price increases will have a 'devastating impact on the amount of land that gets planted' and will threaten the viability of many in the industry in Queensland.[89]

2.105 The dramatic situation for cane farmers was illustrated in the case of the Herbert River District (Qld) where the local branch of the Australian Cane Farmers Association stated that at the end of 2007 farmers in the district owed one fertiliser reseller $3 million, and still owed $1.2 million in July 2008.[90]

2.106 The Association stated that 'farmers worked all of last year for no income…and in fact have put money into their farms to keep on going and we are totally sick of it'.[91] Mrs Carol Mackee of the Association further stated that:

> Escalating costs are forcing farmers out of business…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.[92]

---

86 *Submission* 13, MGC, p. 1.

87 *Submission* 27, Australian Cane Farmers Association, p. 1.

88 *Submission* 25, Kalamia Cane Growers Organisation, p. 1. See also Mr Geoffrey McCarthy, Director, Canegrowers Isis Ltd, *Committee Hansard*, 23 July 2008, p. 61.

89 Mr Geoffrey McCarthy, Director, Canegrowers Isis Ltd, *Committee Hansard*, 23 July 2008, pp 67- 68.

90 *Submission* 31, Australian Cane Farmers Association – Herbert River District, p. 1; Mrs Carol Mackee, Australian Canefarmers Association, *Committee Hansard*, 23 July 2008, pp 55-56.

91 *Submission* 31, Australian Cane Farmers Association – Herbert River District, p. 1; Mrs Carol Mackee, Australian Canefarmers Association, *Committee Hansard*, 23 July 2008, pp 55-56. See also *Submission* 12, Mr Sam Nucifora, pp 1-2; *Submission* 34, Ms Margaret Menzel, pp 1-3.

Other impacts

2.107 Evidence to the inquiry indicated that high input costs, including fertiliser costs, are having a detrimental effect on many farmers and farming communities. As well as severe economic stains imposed on farmers, submissions pointed to increasing levels of depression and other related illnesses and increasing rural suicide rates.[93] One submission noted that:

> Farmers cannot keep on working for little or no return. We have lost a generation of young farmers off the land. Young people are not going to struggle like their parents.[94]

2.108 Another submission pointed to 'the state of penury that most Australian farming enterprises have been driven to, with many hardly making interest payments let alone drawing a living wage for those family members working on farm'.[95]

2.109 Submissions emphasised that high input costs, including fertilisers will impact on consumers through higher food prices.[96] The Bookham Agricultural Bureau stated that:

> While this matter [fertiliser prices] is of immediate concern to farmers and graziers it should be of concern to the wider community. These price increases will eventually flow from grain growers to graziers, to lot feeders and eventually the supermarket checkout.[97]

Committee view

2.110 The committee notes the concerns raised during the inquiry in relation to high fertiliser prices. The committee is extremely concerned at the extent of the impact that fertiliser price increases have on individual farmers and the farming community generally.

2.111 Exorbitant and sustained fertiliser price rises threaten the viability of many farmers and cause suffering in countless farming communities. While fertiliser prices are of immediate concern to farmers, these price increases have a flow-on effect to production and to the wider community through increased food prices.

---

92 Mrs Carol Mackee, Australian Canefarmers Association, *Committee Hansard,* 23 July 2008, p. 55.

93 *Submission* 34, Ms Margaret Menzel, p. 1; *Submission* 12, Mr Sam Nucifora, p. 1.

94 *Submission* 31, Australian Cane Farmers Association – Herbert River District, p. 2.

95 *Submission* 34, Ms Margaret Menzel, p. 1.

96 *Submission* 43, Mr Peter Schwarz, p. 1; *Submission* 15, Patricia & Bernard Heard, p.1.

97 *Submission* 9, Bookham Agricultural Bureau, p. 1.

Recent movements in fertiliser prices

2.112 There has been a dramatic fall in global fertiliser prices in recent months. In the period from late October 2008 to late December 2008, the world price of DAP fell by 60 per cent, and prices for urea fell by 55 per cent.[98]

2.113 In Australia, fertiliser prices, especially for MAP, DAP and urea have fallen in recent months. A recent ANZ study noted that a combination of weaker global fertiliser prices and a stronger Australian dollar has reduced the import price of DAP/MAP and urea by almost 20 per cent in March-April 2009.[99]

2.114 The ANZ study noted that in terms of the current retail price of fertiliser in South East Australia, prices have remained fairly static over the peak sales period. Between February to April 2009, the retail price of DAP/MAP in South East Australia was approximately A$840/tonne and A$610/tonne for urea. The study noted that, at these levels the price of high analysis phosphate fertilisers 'is still considerably lower for farmers than at the same time last year'. In South East Australia the average retail price for DAP/MAP between February and April last year was A$1200. In the urea market, current retail prices are similar to the same time last year.[100]

2.115 Concerns were however raised during the inquiry that recent falls in global fertiliser prices were not reflected in domestic fertiliser prices. The NFF provided statements from its Queensland-based members received in October-November 2008 illustrating this concern.

> We have evidence that there have been no decreases in Urea prices in Queensland despite the world price of urea falling from USD850 to USD350 FOB. In fact Urea prices in one of our regions have increased in the last three weeks to a new high of $1303/tonne.
>
> …the international market [indicates] prices are dropping…it is of concern that this trend is not yet flowing through to the domestic market...We are amazed that local fertiliser prices continue to rise against the global price which continues to fall significantly.[101]

2.116 One witness argued that Australian farmers (as at early 2009) ideally should have been paying about A$400 for DAP – the price paid by American farmers.

> …this winter cropping season, March-April, we are probably going to be paying 1,400 or 1,500 bucks a tonne minimum for DAP. I really cannot see it coming off that much in the Australian theatre at the moment. An Australian farmer should be paying for DAP what an American farmer pays for it [A$412.70]. If you went to a farm meeting in Fort Dodge, Iowa and you said, 'The DAP that is made 50 kilometres away is an internationally traded commodity, and you have to buy it pretending that you are

98 ANZ, *Fertiliser Market Update*, January 2009, p. 1.

99 ANZ, *Fertiliser Market Update*, May 2009, p. 2.

100 ANZ, *Fertiliser Market Update*, May 2009, p. 2.

101 NFF, Correspondence, dated 12 November 2008.

somewhere else,' you would probably be strung up from the big oak tree outside the building.[102]

2.117 Another issue raised was the continuing high price for single superphosphate. Witnesses and submissions pointed to the lack of competition in the single superphosphate market as a significant factor as to why prices are not declining.[103] One witness stated that single super should have been selling for $240 tonne (as at February 2009), yet its selling price was up to $700 per tonne in some areas.[104] One submission noted that IPL's price for single super peaked at about $540 per tonne and has only declined by about 30 per cent yet the world price for the product's major constituent – phosphate rock – is currently about a third of its peak price.[105]

2.118 The committee notes that a recent ANZ study of fertiliser prices points to the probability of lower fertiliser prices in Australia in 2009 compared with 2008. This was attributed to continuing low freight rates, static oil and energy prices and weak global fertiliser demand in 2009. Countervailing factors however include China's policy on fertiliser exports, which has increased the volatility of fertiliser prices in recent years. A weaker Australian dollar may also increase Australian fertiliser prices (as a falling dollar leads to more expensive imports). [106]

102 Mr Andrew Helps, *Committee Hansard*, 4 February 2009, pp 11-12.

103 Mr Andrew Helps, *Committee Hansard*, 4 February 2009, p. 13; *Submission* 55, Mr Greg Maslin, p. 2.

104 Mr Andrew Helps, *Committee Hansard*, 4 February 2009, p. 14.

105 *Submission* 57, Mr Graham Denton, p. 1.

106 ANZ, *Fertiliser Market Update*, January 2009, pp 3-4.