Chapter 5

Agricultural chemicals

5.1 This chapter discusses the structure of the agricultural chemicals industry in Australia. The chapter also reviews the reasons for the recent increases in agricultural chemical prices and discusses monopolistic behaviour in the sector.

Features of the industry

5.2 The Australian agricultural and veterinary (agvet) chemical industry is diverse comprising importers, manufacturers, packagers, wholesalers and retailers of a variety of products. The size of companies ranges from large international companies to small businesses.

5.3 Some of the major agricultural chemical companies operating in Australia include Bayer CropScience, Nufarm Ltd, Farmoz, Crop Care Australasia and Syngenta.[1] Bayer CropScience was established in Australia in 2002, after Bayer Crop Protection acquired Aventis CropScience, one of the world's leading crop protection companies. The company states on its website that it provides arguably 'the most comprehensive list of crop protection and production products in Australia'.[2] Nufarm Ltd is one of the world's leading crop protection companies, with extensive manufacturing and marketing operations in Australia, Europe and the Americas. Nufarm is now ranked the ninth largest crop protection company in the world with 'a clear leadership position in Australia'.[3] Farmoz supplies a wide range of crop protection products in Australia. The company was acquired in 2004 by Makhteshim-Agan Industries Ltd, the world's leading generic manufacturer and distributor of crop protection products. Crop Care Australasia is a leading crop protection and seed company in Australia, which manufactures and markets over 100 herbicides and other agricultural chemicals.[4] Syngenta was formed in 2000 from the merger of Novartis Agribusiness and Zeneca Agrochemicals, both major global crop protection companies.[5]

5.4 The Australian agvet market is relatively small on a world scale, comprising less than two per cent of the global distribution of agricultural and veterinary chemicals. The importation of chemical products and active constituents is significant to the Australian agvet chemicals industry with sources such as China and India featuring strongly in terms of active constituent manufacturing. For this reason,

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1 This list of companies is based on total number of agricultural chemical products registered.

2 www.bayercropscience.com.au

3 www.nufarm.com

4 www.cropcare.com.au

5 www.syngenta.com.au

movements in global chemical pricing can have a significant effect on the retail price of chemicals in Australia.[6]

5.5 The major chemical used in Australia is Glyphosate. Glyphosate is the main ingredient in many knockdown herbicides, used to kill the majority of annual and perennial plants.

5.6 Australia's consumption of herbicides and other chemicals has been growing steadily over the last 30 years. In particular, herbicide sales have experienced significant growth with total sales doubling in the last 12 years.[7]

Regulation of the industry

5.7 The Australian Pesticides and Veterinary Medicines Authority (APVMA) regulates all agvet chemicals and products up to the point of retail sale. Each state and territory government then regulates the use of agvet chemicals in its respective jurisdiction. The APVMA processes incorporate assessment and registration of pesticides and veterinary chemicals and products, development of conditions of use and product quality monitoring.

5.8 The regulatory arrangements were established through the National Registration Scheme (NRS) which was established in 1995 by a conferral of power to assess and register agvet chemicals by state and territory governments to the Commonwealth, and of the adoption of a template Agricultural and Veterinary Chemicals Code by all jurisdictions. As part of the registration process, APVMA may put conditions on the manufacture and supply of a product and usually specifies conditions of use on the product label. Products are registered if the APVMA considers that they are safe and effective, and the label contains adequate instructions.[8]

Price increases for agricultural chemicals

5.9 Agricultural chemicals, along with fertilisers, have experienced significant price increases in 2007 and 2008. The National Farmers' Federation (NFF), in a survey of its members, found that chemical prices increased by over 100 per cent in the 12 months to May 2008.[9] One submission, reflecting much of the evidence, stated that:

> Our members are concerned at the substantial increases in the price of agricultural chemicals and fertilisers, particularly as these increases come at a time when the industry is least able to afford them. The increases in

6 *Submission* 19, APVMA, p. 2.

7 *Submission* 4, NSW Farmers Association, pp 13-14.

8 *Submission* 19, APVMA, p. 1; Productivity Commission, *Chemicals and Plastics Regulation*, Draft Research Report, March 2008, p. 263.

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

> fertiliser prices this year [2008] are in the order of one hundred percent and some chemicals have risen as much as three hundred percent.[10]

5.10 The Australian Cane Farmers Association also stated that '…the cost of agricultural chemicals has also risen substantially and is predicted to continue. The cost of glyphosate, in particular, has more than doubled in the past year'. [11]

5.11 AgForce Grains provided examples of price rises for two commonly used chemicals used in grain farming in Queensland and the effects of price increases on farmers. In relation to Glyphosate, AgForce stated that:

> With the price of glyphosate now reaching almost $15/litre [March 2008] farmers are seriously considering resorting to the old farming practice of ploughing. If glyphosate prices rise by any significant amount from their current level there will not only be major consequences for our farmers from loss of future income with destruction of soil structure and organic matter levels, but the local and wider environment will also suffer.[12]

5.12 With respect to Atrazine (or the product trade named Gesaprim), AgForce noted that:

> The price of atrazine is difficult to determine at the moment...Currently [March 2008] the price quoted, but by no means assured, is $12/kg a large increase from $8/kg last year and $6/kg only two years ago. What we do know is that the big wholesalers are putting up their prices month by month and we therefore expect another major price rise of at least 8% on April 1st [2008].[13]

5.13 As with fertilisers, agricultural chemical prices have recently declined. AgForce Qld noted that Glyphosate has fallen from highs of $15/litre to approximately $5-6/litre in recent months.[14]

Factors influencing price increases

5.14 A number of factors have been identified to explain the rise in agricultural chemical prices in 2007 and 2008. Several of these factors have also been identified as affecting fertiliser prices and are discussed in greater detail in chapter 2.

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10 *Submission* 9, Bookham Agricultural Bureau, p. 1. See also *Submission* 13, Murray Goulburn Co-Operative Co, Ltd, p. 1; *Submission* 24, Agforce Grains Ltd, p. 4.

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

12 *Submission* 24, AgForce Grains Ltd, p. 7.

13 *Submission* 24, AgForce Grains Ltd, p. 7. Altrazine is a residual herbicide for use on summer grasses such as sorghum, maize and sugar cane.

14 AgForce Qld, Correspondence, dated 11 June 2009.

Demand factors

5.15 CropLife Australia noted global demand factors including:

- farm management practices are dynamic and constantly changing in response to new technologies, for example, GM crops, new pesticides and new equipment;
- increased adoption of low/no till agricultural practices has also increased the use of herbicides;
- the move to biofuels in North America, Latin America and Europe for environmental and fuel security reasons has been driven by farmer subsidies and has resulted in increasing land capacity being devoted to crops for fuel, as well as food and feed.
- the populations of China and India are changing their dietary preferences, especially adding meat to their diets. The animals grown to supply that meat are usually grain fed – with a consequent increased demand for chemicals.[15]

5.16 Submissions also identified a number of local factors influencing demand, including:

- Increased rain in Australia over Christmas 2007 resulted in farmers having to apply more herbicides. This unexpected increase caused a shortage in supply.
- Farmers concerned about key product availability and potential cost increases associated with growing global demand appear to have brought forward purchasing to ensure they have sufficient crop protection products to capitalise on favourable market conditions for agricultural produce. This has resulted in a spike in demand.[16]

Supply factors

5.17 China is a major producer of agricultural chemicals and therefore has a significant impact on price and supply. China is the largest producer of Glyphosate, accounting for more than one-third of global production. Some 80 per cent of China's total production of Glyphosate is exported to over 90 countries.[17]

5.18 Several submissions noted that China is experiencing several factors affecting manufacturers' supply availability.

- New environmental regulations introduced by the Chinese Government are increasing compliance costs for Chinese manufacturers and reducing their capacity.

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15 *Submission* 23, CropLife Australia, p. 3.

16 *Submission* 23, CropLife Australia, p. 3; *Submission* 4, NSW Farmers Association, pp 15-16.

17 *Submission* 4, NSW Farmers Association, p. 13.

- The Chinese VAT subsidy to manufacturers for several export products, including glyphosate, has been reduced from 11 per cent to 5 per cent, which has increased export prices of those products.

- There is considerable volatility in the price and supply of raw materials such as phosphorus.

- Chinese manufacturers are increasingly gaining access to European and North American markets. These markets have traditionally been higher priced markets than the Australian market. As a result, Australian buyers are forced to pay higher prices to secure the supply of product.[18]

5.19 As noted in chapter 2, the Department of Foreign Affairs and Trade advised the committee that the recent imposition of a range of export duties and the 2008 earthquake in Sichuan province have affected the supply of fertiliser and agricultural chemicals from China.[19]

Price fixing/price collusion

5.20 As discussed in previous chapters in relation to fertilisers, evidence received by the committee indicates a degree of market manipulation with respect to the agricultural chemicals industry.

5.21 The committee received confidential information indicating that price fixing and price collusion is widespread in the agricultural chemical industry in Australia and these practices have been operating for several decades. These practices, it was argued, play a significant role in manipulating the prices paid for agricultural chemicals in Australia. As margins on agricultural chemicals have always been relatively poor, price fixing and price collusion, it was alleged, has been widely used as a means of maintaining profits for key retail businesses, often at the expense of farmers.

5.22 Details were provided to the committee of price collusion; price fixing – where local businesses fix retail prices to minimise competition; and 'price bullying' – to ensure price stability of key products in the agricultural chemicals industry.

Importation of Roundup

5.23 The committee also received confidential information concerning the importation of Roundup which is landed in Australia at FOB price of $1.82 a litre – the product is allegedly imported in bulk and then repackaged. Importation at this price bears no relation to the prices paid for the product by Australian farmers. The witness stated that:

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18 *Submission* 4, NSW Farmers Association, Appendix 2; *Submission* 20, NFF. p. 8; *Submission* 23, CropLife Australia, p. 4.

19 DFAT, Correspondence, dated 17 June 2008.

> I think it is quite astounding that it is landed here for about $1.82 and we are all out there buying full-spec product whether or not we need it…The other day [a family member] bought what we would have called a 13-gallon drum from his local stock and station agent...and I think he paid about $18.90 a litre for it.

Committee view

5.24 The committee received some allegations of price fixing and price collusion in the agricultural chemicals industry, albeit from a very limited number of sources. These allegations raise concerns, especially as they suggest that these practices may have been a feature of the industry over several decades.

5.25 The committee, while it did not receive extensive evidence in relation to anti-competitive behaviour in the industry and acknowledges that it cannot fully substantiate the claims made to the inquiry, considers that the Australian Competition and Consumer Commission (ACCC) should conduct an investigation of any anti-competitive practices within the industry. Serious allegations have been raised and this fact, when taken in conjunction with evidence of significant price movements in the sector especially in 2007 and 2008 warrant an investigation by the ACCC. Such an investigation would serve to allay any continuing concerns of anti-competitive practices in the industry.

5.26 The committee is keen to ensure that Australian farmers are not forced to pay high, uncompetitive prices for key agricultural chemicals because of any anti-competitive practices in the industry.

Senator the Hon Bill Heffernan
Chair